

TENDENCIES IN DEVELOPMENT OF EXTERNAL AND INTERNAL AUDIT IN THE PUBLIC SECTOR

UDC 657.6:351.076(4-672EU+497)

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Abstract. *Although they have different and clearly defined roles, the general purpose of external and internal audit in the public sector is to contribute to good governance of public funds, that is, efficiency, effectiveness and economy of public administration. As part of the numerous reforms in the public sector of the EU countries, as well as the Balkan countries, which began at the beginning of the 21st century, the external audit of the public sector (state audit) is developing an integral approach in its scope of work, which means providing attestations to the Parliament and the citizens of the state that the public funds are used effectively, efficiently and economically, and that the financial statements and operations of the public sector entities are in line with professional and legal regulations (emphasis is on the performance audit). The internal audit of public funds users, in addition to providing assurance services, is increasingly focused on advisory services with the aim of providing management with support in improving public resource and risk management, the efficiency of spending public funds and the provision of quality public services.*

Key words: *state audit, internal audit, public sector, integral approach, advisory services, EU and Balkan countries*

JEL Classification: M42.

Received November 08, 2017 / Accepted January 18, 2018

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INTRODUCTION

High demands for transparency in the area of accountability with activities and use of public funds, i.e. cost accounting, as well as the requirement that any public spending brings increase in profits, have in the last two decades imposed comprehensive reforms in the public sector in EU countries, as well as in the Balkan countries. In order to promote greater accountability of the public sector governance structures and achieve greater effectiveness and efficiency in the use of public resources, measures have been taken that have contributed to the development of the so-called New Public Management (NPM), which involves the adoption of management concepts and styles characteristic for the private sector. NPM, among other things, involves a gradual replacement of the cash-based by accrual-based accounting. Financial statements compiled using the cash basis do not contain a report on the financial position of an entity, business report, information on service costs, performance indicators, relative position of an entity is unclear, and the like (Montesinos, BARGUES, 1996). Accrual-based accounting allows the production of information on the basis of which it is possible to evaluate the total assets that the entity controls, assess the usefulness of the way of using assets, evaluate performance, perceive the financial position and cash flows, and the like.

In addition, public sector reforms in EU member states and Balkan countries include: activity-based budgeting and accounting in the public sector (ABM); changing the budgeting model from linear to programme-based (based on performance); development of an integrated approach in the scope of work of supreme audit institutions; building an integrated internal control framework; changes in the PIC system (Public Internal Control system); development of the PIFC system (Public Internal Financial Control system) in the countries acceding to the EU; directing and monitoring the development of PIFC schemes by the European Commission (DG Financial Control); audit and evaluation of the PIFC system in the countries acceding to the EU, implemented by: the European Council, the European Commission, the European Parliament (CBC) and the European Court of Auditors; implementation of reforms in the internal control system in the “old” member states (from a centralized to a decentralized system); decentralization of internal audit; decentralized use of EU funds in order to support these reforms, and the like.

Given the significant impact that can be made on improving public accountability, the reforms include government and public audit in the public sector. In this context, there is a trend of transition from a traditional to an integrated approach to state audit, and the expansion of the scope of work and decentralization of internal audit in the public sector, as well as the strengthening of cooperation and coordination of these forms of control.

It should be noted, however, that there are numerous differences between EU countries, and the Balkan countries in terms of “why, when, and how” they implemented reforms in external and internal audit in the public sector. The aim of the paper is to compare trends in the development of external and internal audit in the public sector in EU countries and Balkan countries.

1. DEVELOPMENT OF AN INTEGRATED APPROACH TO EXTERNAL AUDIT IN THE PUBLIC SECTOR IN THE EU COUNTRIES

In developed countries, the tradition of state audit dates back to mid-19th century. The global significance of performance audit has been increasing since the adoption of the 1977 Lima Declaration, through the Resolution of the 12th INTOSAI Congress in Sydney in 1986, then the 13th INTOSAI Congress in Berlin in 1989, and the 14th INTOSAI Congress in Washington in 1992 (Akrap et al., 2009). Most of the state audit institutions around the world apply the INTOSAI Standards – ISSAI by the International Organization of Supreme Audit Institutions, as well as the INTOSAI Guidance for Good Governance, including our SAI (see more: State Audit Institution, 2017). Some EU countries apply their own state audit standards, such as Great Britain and Ireland, which use their own standards compliant with the ISSAI. All of the above standards (ISSAI and national audit standards) provide for the performance of regularity audit (financial audit and compliance audit) and performance audit.

However, for SAI, performance (expediency) audit is a challenging task, as part of the development of an integrated approach in carrying out state audit. This is especially true for SAI of individual developing countries or those in the transition process, which do not have a decades-long tradition in the field of public sector auditing (Tiron Tudor, 2007). Audit institutions in the United States, Canada, Great Britain, Sweden and other developed countries started developing performance audit in 1960s, although similar ideas began to emerge in the 1940s. In the United States, the United States Government Accountability Office (GAO), since 1970, in addition to financial audit for the needs of the US Congress, devotes over 90% of its work to performance audit.

SAI is an independent institution between the Parliament and the public sector, with the task of providing assurance of public expenditure, and, communicating with both sides, can see much further and perceive the public sector much wider than any other public sector institution (Joscelyne, 2003). Until the 1980s and 1990s, *traditional audit approach* was dominant in the work of state audit institutions (Akrap, V. et al., 2009, 354), and included regularity audit (financial and compliance audit). Since then, there has been a noticeable shift from a traditional approach to a wider *integrated or whole-of approach to audit* (INTOSAI Development Initiative, 1995, 7-9). Traditional public sector audit focuses on regularity audit (INTOSAI Framework of Professional Pronouncements, 2016), which includes: control of statements that the executive and public sector entities submit to the Parliament on public expenditure (*attestation audit*) (ISSAI 100, ISSAI 200, ISSAI 1000), as well as the legality of the work of these authorities and entities (*compliance audit*) (ISSAI 100, ISSAI 400, ISSAI 4000, ISSAI 4100, ISSAI 4200).

An integrated approach to state audit, in addition to regularity audit (financial and compliance), includes performance audit (*performance audit, value for money audit, effectiveness auditing*) (Akrap et al., 2009). The main goal of SAI, in conducting performance audit, is to examine the economy, efficiency and effectiveness of collecting and spending public funds and managing government assets (Bonić, Stojković-Krstić, Antić-Marinković, 2016). In this way, it contributes to the rational use of public funds and the achievement of better effects in the management of those funds. SAI becomes an advisor and assistant to the government in using public resources rationally and efficiently and satisfying citizens' demands for quality public services, and is also available to citizens, as it informs them,

and prevents and discovers illegal and criminal actions in the process of managing public funds. Also, SAI helps the public administration to manage human resources on the basis of evaluation of work, accuracy, excellence, and free exchange of ideas. A state auditor may assist the management of a public sector entity to better manage insufficient public funds, but at the same time must retain independence.

All EU countries have adopted an integrated approach to state audit. However, it can be noted that countries with a long tradition in the development of state audit have gone the furthest in this process (Great Britain, Germany, France, Denmark, Norway, etc.). It is also noted that the *SAI organization model* has an impact on the representation of certain audit types (see Table 1) (Compendium of the public internal control systems in the EU Member States 2012, PIC Compendium data, 2014).

Thus, the *EU countries with state audit model based on court of audit*, although heading in the direction of an integrated approach to audit, primarily emphasize compliance audit (audit of business compliance with laws and other regulatory, parliamentary requirements) and sanctioning unlawfulness and irregularity in the work of public sector entities. State audit in this model is the task of auditors, while the court of auditors also includes judges, who perform court activity and sanction all established illegal and criminal actions in the public sector. This is because state audit in these countries is part of the judiciary, and is independent of the legislative and executive authorities. Therefore, in these SAIs, controlling efficiency and effectiveness of public sector work has a minor role in relation to compliance audit. The lack of parliamentary involvement in these SAIs can result in a smaller public interest.

EU countries with state audit organized according to a *monocratic office model* (*Westminster type, where audit institution is headed by a single person*), such as Great Britain, Ireland, and Denmark, although developing an integrated approach to audit, focus on financial audit. This is due to the strong relationship between SAI and the Parliament, which takes place through the parliamentary Public Accounts Committee, which reports to the Parliament. Committee members are mainly accountants and auditors, so there is strong financial control.

In most EU countries, state audit is organized according to the *collegial body model*, with a collegial decision-making method and without judicial activity, directed at Parliament. At the head of the audit institution there is a committee (council, collegial body), and the work of the institution does not depend on one person only, but the collegial structure can make the decision-making process difficult and slow. As this model is present in most newly-admitted EU members (formerly socialist countries), an integrated approach to audit is still under way there.

Table 1 gives a comparative overview of the SAI organization models in EU countries and the scope of development of state audit approach.

Table 1 A comparative overview of the SAI organization model and a built-in approach to state audit in EU countries

Country	Year of establishment	SAI organization model	Approach to state audit
Austria	1761	Court of Audit (CoA)	Dominant compliance audit, court activity, development of performance audit
Belgium	1830	Court of Audit (CoA)	Dominant compliance audit, court activity, development of integrated approach
Bulgaria	1880	Collegial Body Model (NAO)	Development of integrated approach
Cyprus	1879	Collegial Body Model (NAO)	Integrated approach
Czech Republic	1993	Collegial Body Model (SAI)	Development of integrated approach
Denmark	1849	Monocratic office model (NAO)	Development of integrated approach
Estonia	1990	Collegial Body Model (NAO)	Development of integrated approach
Finland	1824	Collegial Body Model (NAO)	Development of integrated approach
France	1318	Court of Audit (CoA)	Dominant compliance audit, development of performance audit, court activity
Germany	1714	The court of audit model that went into the collegial body model	Whole-of approach, no court activity
Greece	1862	Court of Audit (CoA)	Dominant compliance audit, court activity
Hungary	1990	Collegial Body Model (SAO)	Development of integrated approach
Ireland	1923	Monocratic office model (C & AG)	Focus on financial audit, development of integrated approach
Italy	1862	Court of Audit (CoA)	Dominant compliance audit, court activity
Latvia	1918	Collegial Body Model (NAO)	Development of integrated approach
Lithuania	1919	Collegial Body Model (NAO)	Development of integrated approach
Luxembourg	1840	Court of Audit (CoA)	Dominant compliance audit, court activity
Malta	1885	Collegial Body Model (NAO)	Integrated approach
The Netherlands	1447	Court of Audit (CoA)	Dominant compliance audit, court activity
Poland	1919	Collegial Body Model (SAO)	Development of integrated approach
Portugal	1933	Court of Audit (CoA)	Dominant compliance audit, court activity
Romania	1864	Court of Audit (CoA)	Court activity, integrated approach, development of performance audit
Slovakia	1993	Collegial Body Model (SAO)	Development of integrated approach
Slovenia	1994	Court of Audit (CoA)	Court activity, integrated approach, development of performance audit
Spain	1436	Court of Audit (CoA)	Dominant compliance audit, judicial activity
Sweden	1651	Collegial Body Model (NAO)	Development of integrated approach
Great Britain	1314	Monocratic office model (NAO)	Focus on financial audit, integrated approach
Croatia	1993	Collegial Body Model (SAO)	Development of integrated approach, development of performance audit

Source: The table is the result of research according to the PIC Compendium data, second edition, Analysis overview, 2014 (Bonić, Dorđević, 2017)

2. THE DEVELOPMENT OF PUBLIC-SECTOR INTERNAL AUDIT CONSULTING SERVICES WITH THE AIM OF IMPROVING PUBLIC FUND MANAGEMENT IN EU COUNTRIES

For the purpose of more efficient functioning of the public sector, it is justified that both the state and professional community insist on the “consistent implementation of managerial accountability and the development of the role of executives and accountants” (Borović, Zakić, 2013). Particular contribution to this comes from the well-organized *public internal control* in the public sector (internal control and internal audit)

Public internal control in public sector entities should help and *support the improvement of the management function: improving the management system and improving operational performance* (Bonić, 2016).

Improving the management function should ensure secure functioning of the public sector, through the protection of business sustainability (*going concern principle*) and the maintenance of the planned spending of previously allocated funds (*principle of budgetary financing*). Also, public internal control in public sector entities should *contribute to risk management* (Koning, 2007), risks most often occurring as: misuse of financial, personnel, and technical resources; failure to implement budget policy decisions in a regular and effective manner; fraud and errors; inadequate accounting records; failure to provide timely and reliable information on the management of finances and resources (See more in: Akrap et al., 2009). Risk management is a process of identifying, assessing, and controlling risks in order to provide reasonable assurance of the achievement of the organization's objectives.

Internal audit in the public sector, in the context of providing support to the top management in governance, provides: a) *assurance services* on the adequacy of risk management, internal control, and governance processes of the public sector entities in achieving the set goals, b) *consulting services* consisting of recommendations, guidance, training, assistance, and other services in order to increase the value and improve the entity management and internal control processes.

Trends in the development of internal audit within the PIC system in EU countries (regardless of whether it develops as a specific PIC system or a PIFC system) are the following (Compendium of the public internal control systems in the EU Member States, 2012; PIC Compendium, 2014):

- *The trend of decentralization of public internal control and the connection and harmonization of its elements*

Since the beginning of the 21st century, most of the current 28 EU countries have been engaged in the modernization of the control environment in the public sector (Compendium of the public internal control systems in the EU Member States, 2012). Some countries have special internal control institutions, independent of public sector entities (*strong public internal control centralization*), such as Intervención General de la Administración del Estado (IGAE) in Spain, or Inspection Générale des Finances in Luxembourg (Compendium of the public internal control systems in the EU Member States, 2012). A large number of EU countries (Germany, the Netherlands, Sweden, Great Britain, the 13 new EU member states) consider that public sector entities need to build a public internal control system within their internal management process. Decentralization of public internal control (internal control and internal audit) should ensure the improvement of public fund management, greater accountability when spending public funds, and impact on the prevention and detection of fraud and corruption in the public sector.

- *Internal audit in the public sector – scope of work, regulations, organization*

For most EU members with a decentralized internal audit system, *risk management* is becoming part of the governance mechanism in the public sector. This is the case in Estonia and Sweden, while in some countries, like Ireland, only some departments are implementing risk management strategies. Several countries, on the other hand, do not mention explicitly risk assessment within their internal oversight arrangements (Germany, Italy, Luxembourg, and Spain).

The basic components of today's work programs for most internal audit functions are *audit of financial information and audit of compliance, i.e. regularity of financial management*. However, the introduction of performance-based budgeting (program budgeting), evaluation, risk management, and the growing complexity of technology, used to provide government services, have a significant impact on increasing demands for the provision of diverse expertise, consulting services, and higher quality of all services from internal audit. The extension of internal audit scope is reflected in the implementation of: *financial services, financial assurance services, management services, IT audit, performance audit, information safety and security, and others*. Only data from Estonia is out of this, as it shows that the demand for consulting services has declined in this country.

All EU Member States have an established internal audit function in the public sector. Some EU countries (Luxembourg, Greece) have plans to decentralize internal audit in the public sector, and currently rely on other arrangements. In Italy, a special committee was entrusted to provide the minimum legal basis for the functioning of internal audit. Spain attaches great significance to a form of *ex ante* internal audit, and a form of subsequent audit of public sector activities is also being developed. Many EU member states have established audit boards/audit committees.

Regarding the *professional regulatory framework for internal audit* in the EU member states, the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors and the Code of Ethics are generally accepted, while 18 member states have a specific set of internal audit standards in the public sector.

Internal audit *does not cover all parts of the public sector in the same way* in all EU member states. In some countries, in addition to the central level of government, internal audit covers both regional and local governments (Lithuania, Estonia), while some countries intend to develop an internal audit at local government level (Romania). In Sweden, only some agencies (which manage complex and sensitive operations, with large resources and high costs) have an obligation to set up internal audit. Most EU countries have organized internal audit in state bodies and institutions.

- *Harmonization and coordination of internal control and internal audit in the public sector*

EU member states use different methods to harmonize and coordinate internal control and internal audit, from making recommendations for professional networking between financial control mechanisms and internal and external auditors to the establishment of a central harmonization unit. However, more than half of the EU countries have established a *central harmonization unit (CHU)*, which is responsible for: proposing regulations in this field, harmonizing standards, monitoring quality and success, and establishing and coordinating human resources training activities.

In most cases, CHU is part of the Ministry of Finance, and is sometimes *supported by independent advisory boards or committees*. Several EU member states have special forms of *networking* arrangements that can provide the necessary level of coordination (for example, Austria, Cyprus, Denmark, Germany, and Latvia). The Czech Republic recently abolished its central harmonization unit for efficiency reasons. Some EU countries (France, Hungary, Portugal, and Great Britain) highlight the importance of central harmonization units, in particular to create good and efficient arrangements for cooperation between managers of public entities and financial controllers and internal auditors.

- *Cooperation of internal and external (state) audit in the public sector*

Most EU member states have developed relationships between internal and external audit in the public sector, particularly in the area of (INTOSAI GOV9150): assessment of the subject of the audit (control environment, compliance of financial statements with legal and professional regulations, operational performance, entity management, risk management, and the like); documenting the entity's operational processes (submission of plans and internal audit reports to SAI); developing and implementing audit procedures; methodology and training of personnel; information on internal controls; investigating fraud and corruption.

Collaboration helps the exchange of ideas and knowledge between state and internal audit in the public sector, which affects the harmonization of their scope of work, and certainly contributes to strengthening the position of these professions in the public sector. This allows for identifying opportunities for joint promotion of good governance and accountability of public sector entities. Special benefits stem from reducing the likelihood of job duplication, which largely ensures a high degree of efficiency of the conducted audit procedures without endangering effectiveness. Thus, although the goal when assessing the achieved level of efficiency and effectiveness of internal control system is different, information exchange and joint implementation of inspection and other procedures are very important (Endaya, 2014). Coordination of plans provides a better understanding of the risks that the public sector entity faces, leading to more targeted audit, and, consequently, more useful recommendations. Mutual communication provides better coordination of activities, clearer understanding of individual roles and demands of state and internal audit, better mutual understanding of the results of the work of the other, etc.

The results of the 2015 survey (EUROSAI – ECIIA Joint Paper, 2015), conducted by the European Organization of Supreme Audit Institutions (EUROSAI) and the European Confederation of Institutes of Internal Auditors (ECIIA), provide a great deal of detail on the achieved cooperation between state and internal audit. In general, the *most common ways of cooperation between state and internal audit* are as follows:

- Mutual communication of audit reports (Belgium, Croatia, Cyprus, Denmark, Finland, France, Latvia, Malta, the Netherlands, Poland, Portugal, Slovakia, Spain),
- Regular meetings of state and internal auditors (Austria, Belgium, Croatia, Czech Republic, Denmark, France, Hungary, Latvia, Lithuania, Malta, the Netherlands, Slovakia),
- Using the results of the work of the other party in order to determine the nature, timing, and scope of the audit procedures to be carried out (Belgium, Bulgaria, Croatia, Czech Republic, the Netherlands, Poland).

Table 2 gives a review of the organization of internal control/internal audit and the scope of established cooperation between external and internal audit in the public sector in the EU countries.

Table 2 The organization of internal control/internal audit and the scope of established cooperation between external and internal audit in the public sector in the EU countries

Country	Model of internal control organization/ Establishment of IA	Cooperation between external and internal audit in public sector
Austria	Accepted components of PIFC access to the EU. IA establishment in all ministries, state self- governments and 50% of agencies and public enterprises	Well-established (informal) cooperation in the field of planning, information exchange, reporting
Belgium	Accepted components by PIFC access to EU/ IA is performed in 22 institutions of executive power	Formal cooperation is established at the regional level, while formal agreement does not exist with IR in individual entities and provinces
Bulgaria	Decentralized internal control. Established PIFC system and IA within it	Established cooperation between state and internal audit through agreement
Cyprus	Centralized internal control. IA is in charge of the Internal Audit Service (IAS), headed by the Commissioner of Internal Audit	Internal audit reports are taken into account when developing an annual external audit plan
Czech Republic	Decentralized internal control, Established PIFC system and IA within it	Mutual use of work in order to determine the nature, timing and scope of audit procedures
Denmark	Decentralized internal control. Within each ministry IA established in all departments of the federal administration	Realizing cooperation through the organization of quarterly meetings. Cooperation regulated by law.
Estonia	Established PIFC system and IA within it	High level of cooperation and coordination
Finland	Established PIFC system IA is performed in government ministries and state bodies	Strong cooperation established
France	Strong centralization of internal control. Starting the process of decentralization of internal control	There is cooperation in the domain of internal audit work for the needs of the Court of Audit
Germany	IA organized in all departments of the federal administration	The decisions on the nature and degree of contact between the state and internal audit are the responsibility of the state audit unit.
Greece	The trend of decentralization of the PIC, Centralized IA for ministries and regions	No cooperation agreement
Hungary	Decentralized internal control, Established PIFC system	Established cooperation. State Audit uses the work of internal audit but also involves it directly in carrying out the audit procedure
Ireland	Decentralized internal control, IA established in all government departments and state organs	Joint review of financial statements
Italy	The trend of decentralization, IA is performed within the Ministry of Economy and Finance	There is no cooperation agreement
Latvia	Decentralized internal control. IA established in ministries and institutions directly responsible Prime Minister	The external audit cooperates with the internal audit through the Ministry of Finance and the State Revenue Service
Lithuania	Decentralized internal control. Established PIFC system	Established strong cooperation and coordination of work
Luxembourg	Strong centralization of internal control IA is performed by the General Inspectorate of Finance	Establishing cooperation

Country	Model of internal control organization/ Establishment of IA	Cooperation between external and internal audit in public sector
Malta	Centralized IA is performed by The Internal Audit and Investigation Department (IAID)	Established cooperation. Meetings are organized to discuss relevant issues and proposals of the audit program
Netherlands	IA is centralized for the minister, but it is operatively present in all ministries. It is performed by the Central Government Audit Department	There is intense cooperation between the Court of Audit and the internal audit at the national level
Poland	Decentralized internal control, Established PIFC system	State auditors cooperate with internal auditors on a daily basis during auditing activities.
Portugal	Decentralized internal control; IA is organized at the level of ministries and most bodies in the public sector	The law regulates cooperation at the highest state level. At lower levels, internal audit cooperation is carried out as needed.
Romania	Decentralized internal control. Adopted PIFC system	Cooperation is regulated by the concluded protocol between the Ministry of Finance and the Court of Audit.
Slovakia	Decentralized internal control. Adopted PIFC system	Cooperation between state and internal audit is covered by the strategies for the development of state audit.
Slovenia	Decentralized internal control. Adopted PIFC system	Although informal, strong cooperation has been established in a number of areas: planning, reporting, risk assessment, etc.
Spain	Centralized internal control, IR is performed by the Interagency General de la Administración del Estado – IGAE	Formal cooperation has not been established.
Sweden	Accepted PIFC components when accessing the EU	Informally established cooperation in the field of assistance in the work, information exchange and reporting in individual engagements.
Great Britain	Decentralized internal control - IA organized in all entities	Cooperation established in the exchange of strategies, plans and work.
Croatia	Decentralized internal control. Adopted PIFC system	The agreement established cooperation, giving and monitoring the implementation of recommendations.

Source: The authors created the table based on: Compendium of the public internal control systems in the EU Member States, 2012; PIC Compendium, 2014

3. TRENDS IN THE DEVELOPMENT OF EXTERNAL AND INTERNAL AUDIT IN THE PUBLIC SECTOR OF THE BALKAN COUNTRIES

The Balkan countries, Slovenia, Croatia, Romania, and Bulgaria, are EU members, while Montenegro, Bosnia and Herzegovina, Serbia, and Macedonia are in the process of joining the EU. As part of the EU accession process, these countries had to implement numerous reforms in the public sector, as well as other areas, in terms of harmonizing and accepting appropriate legislation (EU legal acquisitions and professional regulation) and establishing good governance practices, not just using EU funds, but also by collected public funds.

Reforms in the public finance management and control system require: activity-based budgeting and accounting in the public sector (ABM); transformation of the accounting basis

from cash to accrual; changing the budgeting model from linear to program-based (based on performance); building an integrated internal control framework; development of PIFC – Public Internal Financial Control System (internal financial control system in the public sector); directing and monitoring the development of PIFC schemes by the European Commission (DG Financial Control); audit and evaluation of the PIFC system carried out by: the European Council, the European Commission, the European Parliament (EP), and the European Court of Auditors; decentralization of internal supervision; construction of new public management (NPM), development of an integrated approach to audit in state audit institutions, development of coordination and cooperation between SAI and internal audit in the public sector.

In the Balkan countries, *state audit* was established relatively late in relation to European countries with a long tradition in this field. Regulatory framework related to state audit in these countries includes *laws*, *by-laws*, and *professional regulations* (Bonić, Đorđević, 2017). The SAIs of Slovenia, Romania, Croatia, and Bulgaria have established integrated approach to audit, while Bosnia and Herzegovina, Montenegro, Macedonia, and Serbia, in addition to the established financial audit and compliance audit, develop performance audit. The *court of audit model* was accepted in Slovenia and Romania in the organization of state audit, while Croatia, Bulgaria, Bosnia and Herzegovina, Montenegro, Macedonia, and Serbia defined the *collegial body model*.

The Balkan countries have adopted the *concept of a PIFC system for organizing internal public sector oversight* by opening negotiation chapter 32 – Financial control, which, among other things, requires the establishment of internal financial control in the public sector. The PIFC system has been developed by the European Commission with the aim of establishing effective internal oversight in the public sector for the purpose of protecting and ensuring the proper use of public funds in countries acceding to the EU. In the process of joining the EU, the PIFC system is introduced into the candidate country practice through two processes. One is the preparation and use of pre-accession EU assistance programs, for which institutions must have fully established system of internal financial controls, in line with EU requirements. The second is the negotiation process, in which negotiation chapter 32 obliges the candidate country to establish and implement a system of internal financial controls (see more in: Informacioni centar EU u Beogradu, 2015).

All Balkan countries have adopted the *strategy for the development of internal financial control (oversight) in the public sector*. The PIFC system has become an integral and vital part of the public sector in these countries, and executives in internal financial management, internal control, and internal audit become, or have become, a special professional category of public sector employees with formal qualifications and long-term training programs. *The main components of the PIFC system* in these countries are: 1. financial management and control, 2. functionally independent internal audit, and 3. central unit for harmonization and coordination of the financial management and control system and internal audit methodology (CHU).

The countries of the Balkans currently in the process of joining the EU face the challenges of implementing the PIFC system, the process of decentralization of internal oversight, the establishment of internal audit in all public sector entities, directing internal oversight to the governance function of public sector entities (especially risk management) and improving their operations. The construction of the PIFC system should contribute to the strengthening of public administrations and increase accountability regarding public spending and finances (especially those derived from EU funds) of the Balkan countries that are in the process of EU accession.

Internal audit, as part of the PIFC system, is institutionalized in the Balkan countries through *laws, by-laws, and professional regulations* (Bonić, Đorđević, 2017).

Internal audit in the public sector in the Balkan countries is mandatory for direct and indirect users of public funds, and it is established mostly in one of the following four ways: as an independent internal audit unit, by the appointment of an internal auditor, the establishment of a joint internal audit unit or an agreement with the entity that performs internal audit in one of the three preceding ways, with the prior approval of the CHU.

Internal audit in the public sector is an independent activity that should *provide independent, objective assurance and professional opinion in order to improve the performance of the users of public funds*. In this context, it should provide: a) *assurance services* and b) *consulting services* consisting of recommendations, guidelines, training, assistance, and other services in order to increase value and improve the entity management process (performance, i.e. expediency audit, IT audit, expertise, financial assurance services, management improvement, risk management, information safety and security, implementation of training...). Internal audit in the public sector refers to all business functions and processes, identifying deficiencies and weaknesses, and making recommendations for improvement. It should be emphasized that the Balkan countries that joined the EU managed to develop these services, while the Balkan countries that are in the process of EU accession generally provide assurance services and are in the stage of development of consulting services.

Table 3 gives a review of the model of organization and approach to state audit, the coverage of public sector parts by internal audit and its scope of work, as well as forms of cooperation between state and internal audit.

Cooperation between external and internal audit in the public sector in the Balkan countries has been established by agreement between SAI and the central harmonization unit, but in the countries that are in EU accession stage, it is still at a more formal level, and implies internal audit by state auditors. Often, the cooperation of external and internal audit in the public sector in these countries is based on initiatives undertaken by SAIs. Numerous *benefits* are expected from the establishment of better links between internal and state audit: exchange of ideas and knowledge, reducing unnecessary duplication of auditors' work, and increasing audit coverage based on risk assessment. Supreme Audit Institutions (SAIs) and internal auditors should communicate in the area of audit planning, jointly develop methodologies, organize joint training, and inform each other about submitted reports. Also, within the framework of EU accession, SAI should oversee the development of the PIFC system (and internal audit within it) in the public sector.

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Table 3 External (state) and internal audit in the public sector and cooperation between them in the Balkan countries

Country	SAI		Internal audit in the public sector	
	SAI organization model	Approach to state audit	Coverage of public sector parts by internal audit	Scope of work of internal audit in the public sector
1. Slovenia	Court of Audit (CoA)	Court activity, integrated approach	At central government level, 90-100% of state entities, development at the level of local self-governments and municipalities	Assurance services* Consulting services**
2. Croatia	Collegial body (SAO)	Development of integrated approach	At central government level, 50-60% of state entities, development at the level of local self-governments and municipalities	Assurance services* Development of some consulting services**
3. Romania	Court of Audit (CoA)	Court activity, integrated approach	At central government level, 50-60% of state entities, development at the level of local self-governments and municipalities (development of partnership on a geographical basis ACoR)	Assurance services* Consulting services**
4. Bulgaria	Collegial body (NAO)	Development of integrated approach	At central government level, 90-100% of state entities, development at the level of local self-governments and municipalities	Assurance services* Consulting services**
5. Montenegro	Collegial body (SAI)	Development of integrated approach, development of performance audit	At central government level, some state entities, development at the level of local self-governments and municipalities	Mainly assurance services*
6. Bosnia and Herzegovina	Collegial body (SAO)	Development of integrated approach, development of performance audit	At central government level, 50-60% of state entities, development at the level of local self-governments and municipalities	Mainly assurance services*
7. Macedonia	Collegial body (SAO)	Development of integrated approach, development of performance audit	At central government level, 50-60% of state entities, development at the level of local self-governments and municipalities	Assurance services* Development of some consulting services**
8. Serbia	Collegial body (SAI)	Development of integrated approach, development of performance audit	At central government level, state entities, development at the level of local self-governments and municipalities	Mainly assurance services*

Source: The table was created by the authors based on:

EUROSAI - ECIIA Joint Paper (2015), PIC Compendium (2014)

* Assurance services – performed through financial audit, compliance audit, evaluation of internal controls, and making proposals for their improvement

** Consulting services – relate to the performance of: various expertise, financial assurance services, management improvement (in particular risk management), IT audits, performance audits (expediency), information safety and security

Areas where no cooperation is achieved between internal and external audit in the public sector in the Balkan countries are (EUROSAI – ECIIA Joint Paper, 2015): evaluation of performance of internal audit units, development of internal audit procedures, implementation of audit procedures (audit of multi-location entities), and research into abuses and corruption.

The attention of the European Commission, numerous consultants, and twinning partners is focused on the implementation of the PIFC system, and, therefore, the implementation of internal audit in the public sector in the countries of the Balkans, as well as in countries covered by the European Neighbourhoods Policy (ENP) programs. The EU's assistance to the Balkan countries in building the elements of the PIFC system also includes programs that were abundant since the beginning of the 21st century: *CARDS program; Strategy paper for EU countries and individual countries that do not belong to the EU; Programs that are part of the Regional Strategy Paper; Multi-annual indicative programs; several important IPA documents for the Balkan countries; Support for Improvement in Governance and Management; Project Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management.* Support to these programs and internal control reforms, including the development of cooperation between external and internal audit in the public sector, is provided by SIGMA, consulting firms, twinning arrangements, and there are also experiences of the countries that have been admitted to the EU. Also, there is support from the European Commission and its bodies, as well as other competent European institutions.

CONCLUSION

In the process of serious public sector reform in all EU and Balkan countries, there has been a change and development in the scope of work of external and internal audit of the public sector in order to contribute to transparency and accountability in the use of public funds and the prevention of public sector abuse and corruption. In addition to the control role (providing assurance services), the state audit increasingly receives a consultative role (providing recommendations and advice), resulting in the development of an integrated audit approach. Internal audit in the public sector is becoming the third line of defence for public funds users, through communication among three levels of internal oversight in defence against unplanned and irrational spending of public funds, and helps managers in the process of improving business management.

The decentralization of internal audit and the focus of the state audit on the performance audit should contribute to the greater accountability of public sector managers in the spending of public funds.

Coordination and cooperation of internal and external audit in the public sector provides benefits in the performance of their activities, but also to users of public funds, by improving the management function, i.e. system of management (use) of public funds, with the aim of fulfilling obligations and providing public services and operational spending of available public funds in order to realize the set goals.

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TENDENCIJE U RAZVOJU EKSTERNE I INTERNE REVIZIJE U JAVNOM SEKTORU U ZEMLJAMA EU I BALKANA

Iako imaju različite i jasno definisane uloge, opšta svrha eksterne i interne revizije u javnom sektoru jeste da doprinesu dobrom upravljanju javnim sredstvima, odnosno efikasnosti, efektivnosti i ekonomičnosti državne uprave. U sklopu brojnih reformi u javnom sektoru zemalja EU, kao i zemalja Balkana, koje su otpočele početkom 21. veka, eksterna revizija javnog sektora (državna revizija) razvija integralni pristup u svom delokrugu rada, što podrazumeva pružanje uveravanja Parlamentu i građanima države da se javna sredstva koriste efektivno, efikasno i ekonomično i da su finansijski izveštaji i poslovanje entiteta javnog sektora u skladu sa profesionalnom i zakonskom regulativom (akcenat je na reviziji uspeha). Interna revizija korisnika javnih sredstava pored pružanja usluga uveravanja, sve više je usmerena ka savetodavnim uslugama sa ciljem da menadžmentu pruži podršku u unapređenju upravljanja javnim resursima i rizicima, efikasnosti trošenja javnih sredstava i obezbeđenju kvalitetnih javnih usluga.

Ključne reči: državna revizija, interna revizija, javni sektor, integralni pristup, savetodavne usluge, zemlje EU i Balkana