

THE PUBLIC INTERNAL AUDIT COMMITTEE IN THE SOCIAL HEALTH INSURANCE SECTOR- A NECESSITY IN ROMANIA

*Iulian Bogdan Dobra*¹

*Attila Szora Tamas*²

ABSTRACT: Health care reform and health system financing required to meet population needs and current financial constraints proved to be a major challenge worldwide. In these conditions the role of Public Internal Audit Committee in the public system is extremely important. It is known that the requirement to provide proposals to the Board, to the overall management and grant support required for their implementation has led to these structures.

Key words: audit committee, internal audit, corporate governance, risk management, healthcare

JEL codes: G34,G38, M42,H10,H51, I18

Introduction

The medical aid reform, the financing of the healthcare system necessary to satisfy the needs of the population, as well as the current financial constraints have proved to be a major challenge globally. In these conditions, the role of the Public Internal Audit Committee (PIAC) within the public system becomes a major necessity. It is known that compulsoriness of sending proposals to the general management, namely the Board of Administration, as well as granting the needed support to implement them has lead to the building up of these structures.

At this time, as a result of the fact that the methodological framework was not created, the Audit Committees don't function at the level of the hospital medical suppliers in Romania. We think that founding PIACs is absolutely necessary due to their dimensions, role, risk management and financing method.

Literature review

Public auditing institutions aim to reduce the agency problem between citizens and government. In the limited literature available auditors serve as "watchdogs" of the executive and the bureaucracy to improve transparency, fight misappropriation, fraud, corruption, wasteful usage of public funds, and general inefficiencies. [Schelker, 2008]

The scarce economic literature unanimously underlines the importance of Audit Committees (of the public institutions, especially in the healthcare sector) in providing vital information to the legislature, political parties, the media, the citizens, and other organizations to control the government and its bureaucracy, and points to its value in serving the public interest. The evidence suggests that the existence of independent review by an auditing institution significantly reduces corruption and wasteful spending [e.g. Olken 2007, Ferraz and Finan 2005].

In the public sector, entities create their image upon the quality of provided services and their capacities of satisfying the public. This image becomes difficult to create in terms of lack of resources and the constantly growing needs of various and qualitative services [Țurlea, Ștefănescu, Dumitru, 2008].

Starting from the premise that the entities in the public sector, including Health Care Providers (HCPs) must be more transparent, must improve the quality of the provided services,

¹ University of Alba Iulia "1 Decembrie 1918", dobra.iulian@gmail.com;

² University of Alba Iulia "1 Decembrie 1918", attaconsulting@yahoo.com.

reduce bureaucracy and minimize risks, we think that PIACs can contribute to the fulfilment of these desiderata. Therefore, PIACs should evaluate the way in which the entities comply with the principles of economy, efficiency and effectiveness in spending the public money, offering recommendations to the Board to improve the triad.

The activity of the Public Internal Audit Committee must be based on the CHARTER of the Committee, which includes current practices, new rules, the frequency of meetings, their duration, the reporting system to the Board of Administration, as well as other necessary activities [Ghiță, 2005].

The publication "*Integrated governance handbook 2006*" and "NHS Audit Committee Handbook 2005" [Department of Health-UK:2006] have represented the foundation of our research. These publications are for NHS boards and for their continued development towards good governance principles.

In the researches conducted lately, a growing attention was given to measuring the effectiveness of Audit Committees (ACs). For example, DeZoort et al. (2002) review 37 empirical studies published between 1987 and 2002. They provide a framework with four fundamental determinants of AC effectiveness (*composition, authority, resources, and diligence*) and discuss each study according to these dimensions. They conclude that while each of the four dimensions has been examined to some degree, significant opportunities exist in each area and provide specific research opportunities for each of them.

Instead of focusing on the determinants of AC effectiveness, Turley and Zaman (2004) analyze the effects of ACs using a framework composed of three dimensions (audit function, financial reporting quality, and corporate performance).

Differing from previous reviews on AC effectiveness which focus on economics based empirical studies with US firms (e.g., DeZoort et al., 2002; Romano, 2005), Bedard and Gendron, (2009) cover a broader spectrum of theoretical perspectives from various fields (e.g. law, economics, psychology, sociology), methods (archival, survey, laboratory case, and interview-based), and countries. Their review differs from that of Turley and Zaman (2004) in its emphasis on international comparisons and a more systematic analysis of the association between AC characteristics and a broader range of indicators of effectiveness that they group into four categories (information quality; audit quality; internal control effectiveness) [Bedard, Gendron, 2009].

Research methodology

In order to conduct this research, we did a documentation based on various analyses, studies, practice handbooks regarding the Public Internal Audit Committee in the Romanian public system in general and the sector of the social insurance healthcare in particular. At the same time, the specialized literature, the current legislation, as well as the practical aspects met in the daily activity of public institutions was also taken into account.

The research targeted to identify the key elements related to the role and need of a Public Internal Audit Committee within the Romanian healthcare system, as well as to identify recommendations regarding the activity, structure, position, functional and collaboration relationships with other entities (General management/Board of Administration).

The regulation of the Public Internal Audit Committee's activity within the public system – the healthcare sector

Romania is aligning to the international practices in the sector of risk management and corporatist management through a series of legislative documents issued in recent years: Emergency Ordinance no. 90 from 2008 regarding the statutable audit of annual financial statements and consolidated annual financial statements (article 47, paragraph 1 and 2) and the requirements of the Order of Ministry of Public Finance no. 1752 from 2005 for the approval of the accounting regulations in accordance with the European directives, republished. According to the Emergency

Ordinance no. 90, the entities of public interest have the obligation to monitor the efficiency of the internal control and risk management systems, monitoring that is included in the tasks of the Audit Committee.

In the Romanian public system, the Public Internal Audit Committee exists and functions at the level of the Central Harmonisation Unit for Public Internal Audit (CHUPIA) within the Ministry of Public Finance. The Law on internal public audit regulates the main attributions, and the nominalization of its members is legislated by specific norms.

The internal public audit within the healthcare system is regulated by a series of normative documents, such as:

- At the level of the National Health Insurance House (NHIH) and of the Health Insurance Houses of each county, on the basis of the internal public audit law and the Government Decisions no. 972 from 2006 for the approval of the NHIH's Statute, the Order for the approval of the Methodological Norms regarding internal public audit within the National Health Insurance House and the Health Insurance Houses of each county for 2009 was issued;
- Within the Directorates of Public Health, based on the internal public audit law and the Ordinance of the Ministry of Health from 2009 regarding the organization and functioning of public health directorates in each county and in Bucharest, article 12 – The executive director of the public health directorates has the following attributions:... i) coordinates the activity of the internal public audit within the public health directorates in each county and in Bucharest, as well as the internal public audit exercised at the level of the subordinated hospitals, according to the law, in case such a specialized structure is not organized at the level of that hospital;
- At the level of public hospitals in accordance to article 193, paragraph 1 (Title VII) from Law no. 95 issued in 2006 regarding the healthcare reform, modified, “internal public audit is exercised by the disconcerted structure of the Ministry of Health for hospitals with less than 400 beds, and for the hospitals with more than 400 beds by a audit department functional at the level of the hospital”.

Audit Committees

In general, for regulators, the desired effect or goal of the AC is to strengthen the quality of financial information and to maintain/strengthen investor confidence in the quality of financial reporting and financial markets (Blue Ribbon Committee Report, 1999; Canadian Securities Administrators 2004). As indicated in Figure 1, the AC can improve the quality of information directly, by overseeing the financial reporting process, and indirectly through the oversight of internal control and external auditing. In the end, improved information quality as well as strengthened controls may result in investors being more confident about the quality of financial reporting and the functioning of financial markets [Bedard, Gendron, 2009].

By analysing the perspective of two authors, Berdard and Gendron, the activity of Audit Committees and Dimensions of Effectiveness in the public sector, we think that in the end those who benefit from the quality of the information and from the recommendations of the authors are the taxpayers or the patients in regard to health care provision.

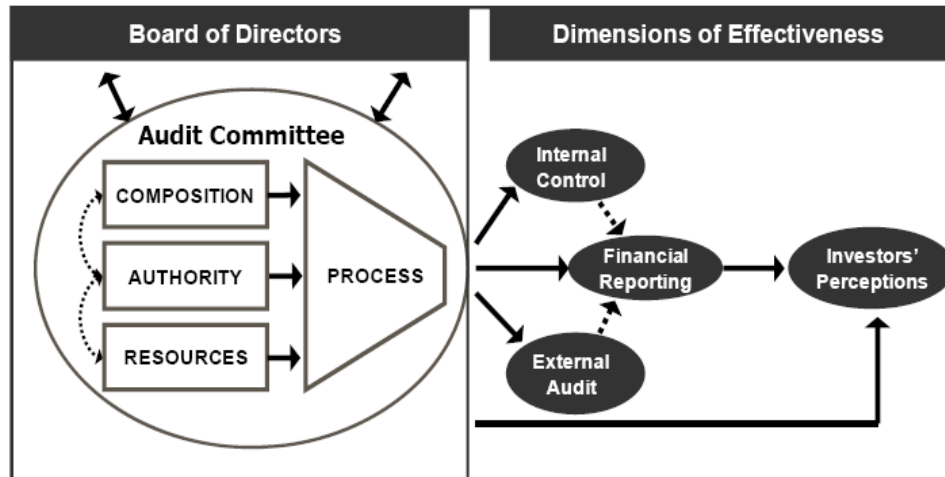


Fig. no. 1 Audit Committees and Dimensions of Effectiveness

Source: „Strengthening the financial reporting system: Can audit committees deliver?” Bédard, J., Gendron, Y. Université Laval, Quebec, Canada, July 2009, p. 64.

National Health Service Audit Committee - Model for Audit Committee in the Hospital Care Providers in Romania?

NHS Audit Committee Handbook 2005 contains Terms of Reference for Audit Committees (ACs) in the NHS and this “model” it’s build on original work based around the Cadbury Committee and Combined Code and subsequent guidance and best practice in the private and public sector. They reflect the particular nature of ACs in the NHS and the growing role of the Committee in developing integrated governance arrangements and providing assurance that NHS bodies are well managed across the whole range of their activities [Department of Health-UK:2006]. (The Combined Code is essentially a consolidation and refinement of a number of different reports and codes concerning opinions on good corporate governance. The first step on the road to the initial iteration of the code was the publication of the Cadbury Report (1992). The Cadbury Report was a response to major corporate scandals associated with governance failures in the UK (such as Robert Maxwell's executive abuses). The result of this was the accompanying Cadbury Code; the first explicit guidelines on corporate governance in the UK.)

By taking into account the main attributions, regulated by the law, which CHUPIA has within the Ministry of Finance in Romania, we think that this organism together with the experts in the Ministry of Health should elaborate in the near future a reference framework for everything that the functioning of PIACs at the level of medical service providers requires.

In accordance to the British model, we tried to emphasize the main reference terms, which will be part of what the “*PIACs Handbook*” implies, necessary for the functioning and organization of PIACs at the level of *Hospital Care Providers (HCPs)* in Romania.

Terms of Reference for “PIACs Handbook”

Constitution

The Board resolves to establish a Committee of the Board to be known as the Public Internal Audit Committee (PIAC). The PIACs (the Committee) should be a non-executive committee of the Board and have no executive powers, other than those specifically delegated in these Terms of Reference.

Membership

The Committee shall be appointed by the Board from amongst the Non-Executive directors of the HCPs and shall consist of not less than three members. A quorum shall be two members. One of the members will be appointed Chair of the Committee by the Board. The Chairman of the

organisation shall not be a member of the Committee.

Attendance

The Director of Finance and appropriate Internal (or Public Health Department) and External Audit (Supreme Audit Institution –Romanian Court of Auditors) representatives shall normally attend meetings. However at least once a year the Committee should meet privately with the External and Internal Auditors.

The Chief Executive and other executive directors should be invited to attend, but particularly when the Committee is discussing areas of risk or operation that are the responsibility of that director.

The Chief Executive should be invited to attend, at least annually, to discuss with the PIAC the process for assurance that supports the Statement on Internal Control.

The HCP Secretary, shall be Secretary to the Committee and shall attend to take minutes of the meeting and provide appropriate support to the Chairman and committee members.

Frequency

Meetings shall be held not less than three times a year. The External Auditor or Head of Internal Audit may request a meeting if they consider that one is necessary.

Authority

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

The duties of the Committee can be categorised as follows [Department of Health-UK:2006]:

Governance, Risk Management and Internal Control

The Committee shall review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the organisation's activities (both clinical and non-clinical), that supports the achievement of the organisation's objectives.

In particular, the Committee will review the adequacy of:

➤ all risk and control related disclosure statements (in particular the Statement on Internal Control), together with any accompanying Head of Internal Audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Board of the underlying assurance processes that indicate the degree of the achievement of corporate objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements;

➤ the policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements;

➤ the policies and procedures for all work related to fraud and corruption as set out in national acts.

In carrying out this work the Committee should primarily utilise the work of Internal Audit, External Audit and other assurance functions, but will not be limited to these audit functions. Also it will seek reports and assurances from directors and managers as appropriate, concentrating on the over-arching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.

This will be evidenced through the Committee's use of an effective Assurance Framework to guide its work and that of the audit and assurance functions that report to it.

Internal Audit

The Committee shall ensure that there is an effective internal audit function established by

management, that meets mandatory Internal Audit Standards and provides appropriate independent assurance to the PIAC, Chief Executive and Board. This will be achieved by [Department of Health-UK:2006]:

- consideration of the provision of the Internal Audit service, the cost of the audit and any questions of resignation and dismissal;
- review and approval of the Internal Audit strategy, operational plan and more detailed programme of work, ensuring that this is consistent with the audit needs of the organization as identified in the Assurance Framework;
- consideration of the major findings of internal audit work (and management's response), and ensure co-ordination between the Internal and External Auditors to optimise audit resources;
- ensuring that the Internal Audit function is adequately resourced and has appropriate standing within the organisation;
- annual review of the effectiveness of internal audit.

External Audit

The Committee shall review the work and findings of the External Auditor (e.g. Supreme Audit Institution –Romanian Court of Auditors) and consider the implications and management's responses to their work. This will be achieved by [Department of Health-UK:2006]:

- consideration and performance of the External Auditor;
- discussion and agreement with the External Auditor, before the audit commences, of the nature and scope of the audit as set out in the Annual Plan;
- discussion with the External Auditors of their local evaluation of audit risks and assessment of the HCP;
- review all External Audit reports, and any work carried outside the annual audit plan, together with the appropriateness of management responses.

Other Assurance Functions

The PIAC shall review the findings of other significant assurance functions, both internal and external to the organisation, and consider the implications to the governance of the organisation.

These will include, but will not be limited to, any reviews by Public Health Department – Ministry of Health or Regulators/Inspectors (e.g. Public Internal Audit Department, Control Service, Medical Service from National House of Health Insurance or Regional House of Health Insurance and from Regional Public Health Department, etc.), professional bodies with responsibility for the performance of staff or functions (e.g. College of Physicians, College of Pharmacists, Association of Family Physicians, etc.)

In addition, the Committee will review the work of other committees within the organisation, whose work can provide relevant assurance to the PIACs own scope of work. This will particularly include the "Clinical Governance Committee" and any "Risk Management" committees that are established.

Management

The Committee shall request and review reports and positive assurances from directors and managers on the overall arrangements for governance, risk management and internal control. They may also request specific reports from individual functions within the organisation (e.g. clinical audit) as they may be appropriate to the overall arrangements.

Financial Reporting

The Audit Committee shall review the Annual Report and Financial Statements before submission to the Board, focusing particularly on [Department of Health-UK:2006] :

- the wording in the Statement on Internal Control and other disclosures;
- relevant to the Terms of Reference of the Committee;
- changes in, and compliance with, accounting policies and practices;
- unadjusted mis-statements in the financial statements;

- major judgemental areas;
- significant adjustments resulting from the audit.

The Committee should also ensure that the systems for financial reporting to the Board, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Board.

Reporting

The minutes of Audit Committee meetings shall be formally recorded by the HCP Secretary and submitted to the Board. The Chair of the Committee shall draw to the attention of the Board any issues that require disclosure to the full Board, or require executive action.

The Committee report to the Board annually on its work in support of the Statement on Internal Control, specifically commenting on the fitness for purpose of the Assurance Framework, the completeness and embeddedness of risk management in the organisation and the integration of governance arrangements.

Conclusions

In the future, PIACs will have to be founded at the level of medical services providers also in Romania. They will contribute to supporting and strengthening the internal audit function through their activities and through monitoring in accordance to the international practice in this field. At the same time, PIACs can contribute to improving governance, risk management and internal control.

We tried to emphasize the particular nature of ACs in the healthcare provision and the growing role of the Committee in developing integrated governance arrangements and providing assurance that HCPs are well managed across the whole range of their activities in these circumstances.

In conclusion, we believe that viewing AC processes from a variety of theoretical and methodological angles cannot but enrich literature.

References

1. Asare, S.K., Davidson, R.A., Gramling, A.A., 2008. Internal Auditors' Evaluation of Fraud Factors in Planning an Audit: The Importance of Audit Committee Quality and Management Incentives, *International Journal of Auditing*, Vol. 12, No. 3, pp. 181-203. available on-line at <http://www3.interscience.wiley.com/cgi-bin/fulltext/121496538/PDFSTART>;
2. Bédard, J., Gendron, Y., 2009. Strengthening the financial reporting system: Can audit committees deliver?, Université Laval, Québec City, Canada, available on-line at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1438150;
3. Ghiță, M., 2005. Role and the need to establish the Public Internal Audit Committees, *Public Finance and Accounting Magazine*, Vol XVI, Nr. 11-12, pp. 25-29;
4. Ghiță, M., s.a., 2009. Guvernanța corporativă și auditul intern, Editura Aeternitas, Alba Iulia
5. Mangena, M., Tauringana, V., 2008. Audit Committees and Voluntary External Auditor Involvement in UK Interim Reporting, *International Journal of Auditing*, Vol. 12, No. 1, pp. 45-63, available on-line at <http://www3.interscience.wiley.com/cgi-bin/fulltext/119414206/PDFSTART>;
6. Schelker, M., 2008. Public Auditors: Empirical Evidence from the US States, University of Fribourg, Switzerland and *CREMA*, available on-line at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=957528.
7. Stewart, J., Munro, L., 2007. The Impact of Audit Committee Existence and Audit Committee Meeting Frequency on the External Audit: Perceptions of Australian Auditors, *International Journal of Auditing*, Vol. 11, No. 1, pp. 51-69, available on-line at <http://www3.interscience.wiley.com/cgi-bin/fulltext/118522524/PDFSTART>;
8. Turley, S., Zaman, M., 2007. Audit committee effectiveness: informal processes and behavioural effects, *Accounting, Auditing & Accountability Journal*, Vol. 20, No. 5, pp. 765-

- 788, available on-line at <http://www.emeraldinsight.com/Insight/viewPDF.jsp?contentType=Article&Filename=html/Output/Published/EmeraldFullTextArticle/Pdf/0590200505.pdf>
9. Țurlea, E., Ștefănescu, A., Dumitru, V., 2008. Romanian public sector entities between performance and audit of performance, Academy of Economic Studies Bucharest, available on-line at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1260386;
 10. Department of Health-UK - Integrated governance handbook 2006, and Appendices, 16 February 2006, Gateway reference 5947, available on-line at http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4128739.
 11. Government Emergency Ordinance no. 90 from 24.06.2008 regarding the statutable audit of annual financial statements and consolidated annual financial statements, published in Official Gazette no. 481 from 30.06.2009;
 12. Order of Ministry of Public Finance no. 1752 from 17.11.2005 for the approval of the accounting regulations in accordance with the European directives, published in Official Gazette no. 1080 from 30.11.2005, republished;
 13. Law on the internal public audit no. 672 from 12.12.2002, published in Official Gazette no. 953 from 24.12.2002;
 14. Government Decision no. 235 from 04.03.2003 for the approval of the Norms regarding the nominalization of the Public Audit Committee's members, published in Official Gazette no. 162 from 13.03.2003.
 15. Government Decision no. 972 from 26.06.2006 for the approval of the Statute of the National Health Insurance House, published in Official Gazette no. 680 from 08.08.2006, with subsequent modifications;
 16. NHIH Order no. 410 from 18.03.2009 for the approval of the Methodological Norms regarding internal public audit within the National Health Insurance House and the Health Insurance Houses of each county, published in Official Gazette no. 241 from 10.04.2009;
 17. Ordinance of the Ministry of Health no. 127 from 10.02.2009 regarding the organization and functioning of public health directorates in each county and in Bucharest, published in Official Gazette no. 81 from 11.02.2009;
 18. Law no. 95 from April 14th, 2006 regarding the healthcare reform, published in Official Gazette no. 372 from 28.04.2006.