

Internal auditing amongst Portuguese municipalities

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This paper presents the main results of a research that had as general purpose to study the existence and implementation of internal auditing procedures within Portuguese municipalities, as a consequence of local management reforms. Using a questionnaire, we have searched for: knowing the features of the internal auditing service/department, if existent; gathering information on the practice of internal auditing standards and procedures, focusing on economic and financial auditing; and verifying which issues are object of internal auditing, namely those related to the accounting and internal control systems. We have also assessed the importance practices and objects of internal auditing are given, even if non existent. Given that the questionnaire was built on the basis of auditing standards used in the private sector, this research allows to assess the possibility for these to be applied and useful for Portuguese municipalities.

Keywords: Internal Auditing, Procedures, Standards, Municipalities, Portugal.

LA AUDITORÍA INTERNA EN LOS MUNICIPIOS PORTUGUESES

Este documento presenta los principales resultados de una investigación que tuvo como propósito estudiar la aplicación de procedimientos de auditoría interna dentro de los municipios portugueses, como consecuencia de reformas en la gestión local. Mediante un cuestionario, se ha buscado: conocer las características del servicio o del departamento de auditoría interna, si existe; la recopilación de información en la práctica de las normas y los procedimientos de auditoría interna, centrándose en la auditoría económica y financiera; y la verificación de cuáles son los temas objeto de la auditoría interna, a saber, los relacionados con los sistemas de contabilidad y control interno. También hemos evaluado la importancia que se ha dado a las prácticas y los objetos de la auditoría interna, incluso si no existen.

Teniendo en cuenta que el cuestionario fue construido sobre la base de normas de auditoría utilizadas en el sector privado, esta investigación permite evaluar de la posibilidad de que estas sean aplicadas y su utilidad para los municipios portugueses.

Palabras clave: Auditoría Interna, procedimientos, normas, Municipios, Portugal.

Introduction

The concept of auditing has changed over time, reflecting not only the changes happened while developing organisations but also the increasingly broad objectives that have been assigned to it. Nowadays, internal auditing might be defined as an independent activity of objective evaluation and of consulting, aimed at adding value and improving operations within an organisation, bringing a systematic and disciplined approach to assess and improve effectiveness in organisational processes, managing the information risk, control and communication and helping reaching organisational objectives (IIA, 2004). Therefore, it does not have an exclusive financial character any more, since it has extended its scope to such diverse subjects as processes and business systems risks, sustainability, environment, security, social responsibility, etc.

Regarding Public Administration context, Public Sector auditing standards involve specific requirements of continuous education, relating to the governmental environment as well as to private sector auditing standards. Hence, Public Sector auditing requires additional demanding to the general accepted auditing standards, since their fully understanding within this particular context is fundamental to get quality, accurate and impartial views and certificates. On the other hand, the recent changing environment has brought Public Administration to face new requirements, which have led Public Sector organisations to regularly review their auditing policies and standards, in order to continue pursuing their functions according to rigorous professional criteria. Subsequently, Public Sector internal auditing might become a significant part of the auditing practice. In the last decades the Portuguese Public Administration has undergone several reforms, mainly adopting programmes of modernisation and administrative changes. It has been a process of evident progress despite a few drawbacks that some times offer the idea that the changes accomplished have been less proportional to the efforts endorsed.

Portuguese Public Sector auditing, namely in municipalities, is forced to work differently, adopting new methods to be managed and developed, assuring better municipal functioning and going along with the evolution of municipal management needs, increasingly more demanding (OECD, 2003). The large diversi-

ty of municipalities in Portugal might come to require an internal auditing and control involving independent certified private auditors and/or public auditors. As Portuguese Public Administration moves to a juridical freedom closer to the private sector, the need to avoid, at all cost, exacerbated freedom, as well as control needs, demand increasingly more detailed schemes of procedural rules (Estorninho, 1996). The less regulated administrative procedures contracts are, the stronger the precautions against misuse of several possibilities must be.

This context supports the main reason for our research. In fact, the recent changes consequence of the *New Public Management* also seem to point to the adoption within the Public Sector in Portugal, municipalities in particular, of auditing standards used in the private sector, allowing us eventually come to suggest a 'New Public Auditing'.

We believe it is important to highlight the notorious lack of research about municipal internal auditing, either in Portugal or at an international level. Concerning literature and standards, many are from the private sector, although they might be adapted to the Public Sector, as well as a few related to external auditing that might be adapted to internal auditing. This scenario gathers favourable and unfavourable issues to this research: on the one hand it allows us to carry out an original investigation that we expect might contribute to better municipal management in Portugal, since it is the first about this issue; on the other hand, the scarcity of theoretical and normative support raises difficulties to our study.

Thus, our main purpose is to analyse the existence and implementation of internal auditing procedures and other related issues (including the existence of Internal Auditing Offices and/or internal Official Auditors), as well as the importance these are given in Portuguese municipalities. Since the importance analysis is independent from their application, we also assess the possibility of implementing in the Portuguese municipal internal auditing, other procedures, namely those used in external auditing and referred in international auditing standards.

Subsequently, this paper is organised as follows: Sections 1 and 2 present the theoretical and normative framework, namely what we believe are the main issues supporting our empirical research. Section 3 addresses the internal control

and auditing in Portuguese municipalities, essentially based on regulations, since there are yet no studies that allow us to assess the state of the art. Section 4 presents the empirical study, firstly briefly describing the methodology and secondly discussing the main findings. The conclusion summarises the final remarks.

1. Theoretical Framework

1.1 AUDITING CONCEPTS

Auditing might be defined as an exam to the operations, activities and systems of an entity, aiming at verifying whether they are being carried out or working according to certain objectives, budgets, rules and standards (INTOSAI, 1997).

Regarding the entity to be audited, audits might be internal and external, both analysing and evaluating processes and activities, developing exempt, rigorous and objective examining tasks. Both identify, analyse and assess internal control procedures, perform tests, identify insufficiencies, errors and anomalies, evaluate the associated risks and prepare reports including auditors' opinions, suggestions and corrective proposals in order to surpass or minimise the problems that have been found (Marques, 1997). Considering these similarities, it is acceptable that common methodologies and techniques are used, such as tasks planning, programming and dating, and the use of checklists and questionnaires.

Within the context of municipalities, Torres Pradas and Salvador (1995) explain that, opposing external auditing, internal auditing is carried out by a body internal to the entity to be audited. It is an independent activity, of assurance and of consulting, aiming at adding value and improving operations within the organisation; it helps accomplishing organisation's objectives, using a systematic and disciplined approach, to assessing and improving effectiveness in risk management processes, control and governance.

There are, however, important differences between internal and external auditing in municipalities, namely concerning (Hernández, 2001; Marques, 1997; Torres Pradas and Salvador, 1995):

- Main objectives – while external auditing is essentially of economic and financial nature, aiming at issuing an opinion on the accounts, internal auditing aims at supporting the Executive and the municipality's management;
- Addressees – external, such as Central Government or the general public, in external audits; the Executive and municipal audited services in internal audits;
- Scope – financial statements in external audits; all municipal functions and activities in internal audits, which thus has a much broader and variable scope;
- Focus and methodology – external audits generally analyse accounting standards, records and balances, focusing on financial statements, whereas internal audits are deeper and more extensive, focusing on criteria and procedures regarding the accomplishment of internal policies and rules and the internal control system effectiveness – they take into consideration management control issues and operational areas;
- Independence – while external audits are developed by external professionals independent from the municipality, internal audits are carried out by internal professionals that though independent from the audited service, are less independent from the municipality's top administration;
- Timing and frequency – normally the decision of developing an external audit does not depend on the municipality willingness, but it is compulsory at the light of the applicable legislation; therefore external audits tend to be performed annually, while internal audits though periodic do not have specific timings – they depend on what the municipality wants;
- Some concepts, such as materiality, risk and internal control – external auditing gives more importance to the risk associate to errors and omissions that might affect the financial statements, while the risk concept in internal auditing is broader, embracing inefficiencies while using the resources, ineffectiveness of several order, since relating to organisational structure and objectives; materiality is assessed in external auditing considering essentially the quantitative consequences on financial statements,

while for internal auditing materiality assumes a qualitative dimension (e.g. in terms of the municipal image amongst the public); internal control assessment in external auditing seeks for identifying risks that might jeopardise the information disclosed in the financial statements, while in internal auditing it embraces management control.

Therefore, municipal internal auditing focus on organisational issues, systems, powers and responsibilities delegations, working methods and procedures and other broader organisational issues reflecting in all organisational areas, as well as in how they relate to each other in the whole of each municipality. It searches for normative insufficiencies, gaps between norms and reality, out of date methods and processes and unnecessary tasks and procedures (Marques, 1997).

In what concerns the object to be audited, Torres Pradas and Salvador (1995) classify: audits to the accounts, audits to the entity's economic and financial situation, legality and regularity audits and management (economy, efficiency, effectiveness and strategies) audits.

Traditionally external audits focus on economic and financial issues, supported by accounts analyses. Classically, financial auditing is an exam to an entity's accounts and to its economic and financial situation, performed by an auditor with the purpose of issuing an opinion (Carvalho, 2006). Yet, since it has a broader scope, though emphasising general management matters, internal audit also includes financial and economic issues.

The IFAC (1999) harmonised the definition of financial auditing as an exam made by an auditor, of the financial statements, aiming at issuing an opinion on those statements, in order to increase their reliability. It has implicit verifying conformity of procedures and practices with principles, rules and standards, so as to express an opinion on whether the accounts show the true and fair view of the entity economic and financial situation referring to a certain date. It is based on Mautz and Shraft (1993) postulates: it is designed in a strictly technical perspective; it validates the annual accounts; and it is based on historical documents and records.

Within the financial auditing concept, public sector auditing must be understood as the audit performed to entities of public law, that do not follow the rules

of companies law, therefore having different obligations in what concerns financial information. Although fraud and error concerns had recently given room for other purposes (e.g. efficiency), in the Public Sector domain those remain highly important, as well as matters relating to budgetary legality. The general public expects from those managing public moneys great transparency and accountability; the primary responsible for assuring that public moneys are managed with integrity are governments and elected members, as well as public managers and servants. Therefore, public sector auditing represents a fundamental ring within this reliability chain: regular audits are an important mean to prevent and detect irregularities in financial matters, either due to agents corruption or to simple negligence in accomplishing with procedures that assure public moneys are being adequately spent (Costa, 2000). Furthermore public sector auditing loses its value added if it merely analyses past facts; therefore it has to act permanently on what is happening, disseminating the best practices and contributing for public management to be done in a way that maximum value for public money is assured.

According to Almeida (2003), public sector auditing is a new market for auditors and it is gaining an increasingly clear form. Since it has been progressively more demanded by municipalities (Portugal included) it shows a market with important development perspectives, where legality and financial auditing is starting to give place to efficiency issues.

In local governments' context, municipalities decide for financial audits (GAO, 2003):

- When they find it is needed and when there are some doubts on the accounts and budget execution veracity;
- For preparing privatisations at their responsibility;
- When there is a chronic or significant budgetary deficit;
- To assess the financial risks and investments financing plans that exceed certain limits;
- To analyse the estimation methods for expenditure and revenue when there are significant deviations of reality in face of the estimations.

The traditional separation between public and private sector auditing will tend to disappear rapidly. If in a social perspective, auditing is an exam carried out by an independent person, that compares organisational objectives with achievements, preparing reports, then this concept is comprised within control mechanisms both in the public and private sector contexts, for accounts and accountability verification. Furthermore, efficiency and effectiveness are increasingly entering public sector financial auditing (Torres Pradas, 2001).

Nowadays, as private sector internal auditing is enlarging its scope from a financial focus to more ambitious purposes such as supporting risk management, keeping an effective internal control, assuring that the organisation works properly, with adequate operating systems and resources management, similar course is happening in public sector auditing (Torres Pradas and Pina Martínez, 1999). In this latter context, internal auditing is increasingly a management instrument, facilitating analyses, information and recommendations on audited areas and incorporating the evaluation of entities' efficiency, economy and effectiveness (IFAC, 2001).

1.2 INTERNAL AUDITING EVOLUTION AND ACTUAL PROCESS

Internal auditing has passed through several evolutionary stages, starting focusing on accounting records and passing in the 1940s, when the internal auditing profession starts to appear¹, to emphasise control (Brink and Herbert, 1982; Chun, 1997; Mcnamee, 1997). In the following fifty years, the Institute of Internal Auditors (IIA) had a great contribution for the recognition and progress of internal auditing, namely developing a common body of knowledge that led to standards together with a code of ethics, to be constantly updated and transmitted to professionals through continuous training (Gleim, 2001).

Since the 1990s, internal auditing is facing a new paradigm based on the vision of the processes and focusing on 'business risk'. Almeida (2003) explains this risk focus means a global, holistic and systemic orientation for auditing. In fact, internal auditing perspective has broadened to embrace risk management techniques,

1 The Institute of Internal Auditors was founded in 1941.

other than control activities. The auditor now identifies the risks and tests several ways through which management will reduce those risks, going beyond internal controls (Mcnamee, 1997; Mcnameed and Selim, 1998). Internal auditors are having a more influential role in the organization's future (Krogstad *et al.*, 1999).

Miñon and Dominguez (2003) explain that internal auditing has been passing from a role of control to a consultative role. Richards (2001) acknowledges that although that role has been within internal auditing for a few years, only recently has been considered an actual auditing service, which tends to create a new relationship between internal auditors and audited organisations. Subsequently, new tendencies are expected for internal auditing, shifting from verifying conformity with rules to focusing on consulting, risk and governance (Chapman, 2001). Accordingly, the Professional Practices Framework from IIA (2004) has reflected standards not only concerning conformity and control, but also risk management.

The great difference between the former and the current internal auditing focus is in the strategic analysis and assessing business processes as a previous step to the work currently carried out by auditing departments (Lorenzo, 2001). Thus, internal audits plans pass from isolated elements to converge with business plans, sharing common objectives and developing simultaneously as the organisational strategy.

Aligning municipalities' strategies with the audits planning, the internal auditing process becomes linked with municipalities' goals and objectives. Designing a map of the risks associated to municipalities' activities is a fundamental step as a base to develop all auditing related tasks (Miñon and Dominguez, 2003).

As explained, internal auditing is a purposive activity. With either a controlling or a consultative role, internal auditors are required to express an opinion and recommendations, generally in a form of a conclusive report. Therefore, there is a logic progression in the internal auditing process that starts by considering the purpose of serving the needs of the organisation to be auditing, so taking into consideration its mission, main goals and risks; these will affect the audit planning: objectives, tests and consequently the final report (Mcnameed and Selim, 1998).

In municipalities, as in other organisations, internal auditing must evaluate controls adequacy and effectiveness, embracing governance and including: security and

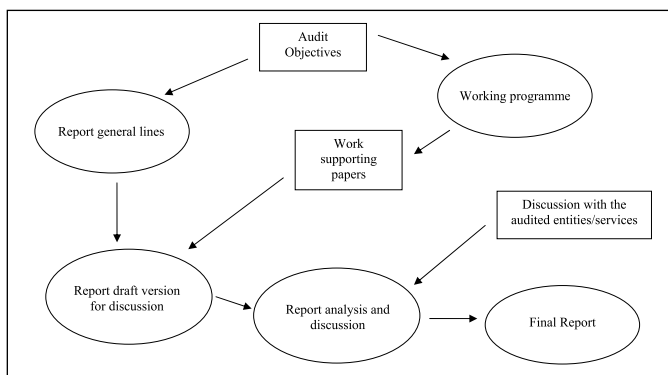
integrity of financial and operational information, operations efficiency and effectiveness and conformity with laws and regulations (IPAI, 2007, PR 2120.A1-1).

The scope and development of internal auditing activities therefore embraces the multifaceted internal control system in order to support the administration in managing the risks. Specifically, it is expected that reliability and conformity of municipality's acts and decisions is assured by controlling processes concerning:

- Accounting records;
- Specific regulations, budget and budgetary execution statements;
- Documents, files, archives and notes;
- Disks, CD-roms and other information magnetic supports;
- Non documented facts;
- Other relevant information on the entity.

The final report is then crucial as an instrument to communicate internal auditing results. Morais and Martins (2007) suggest, as in Figure 1, several stages for the preparation of the internal auditing report, starting by defining the audit objectives (establishing interim reports to be prepared, scope limits and addressees) according to the entity's policies.

Figure 1
Internal Audit Report cycle



Source: Morais and Martins (2007)

Underlying the above cycle, auditing tasks are supervised in order to accomplish with both the objectives and expected quality standards. The responsible by the internal audit team must assure that the whole process starts with planning and pursues with exam, evaluation and monitoring stages, finalising with the report.

The internal auditing report must be distributed amongst the organisation board members capable of taking in due consideration the audit results, meaning that the report will assure a position to take some corrective actions (IPAI, 2007, PR 2440-1).

In what concerns risk exposure, internal audits reports should identify critical situations and their consequences on the organisation's goals (IIA, 2004); they should be written in a language understandable by all (Reding *et al.*, 2000). The report usefulness can increase if it includes improvements recommendations and information on current issues and trends on internal auditing (IPAI, 2007, PR 2120.A1-1).

Internal auditing currently faces new challenges concerning the report resulting from demands of regulating bodies, professionals and the audited entities themselves. Requirements in matters such as accounting and finance, governance, internal control, risk management, quality and environment have impact in communicating the internal auditing results. Together with IT and a dynamic environment, they are constant challenges to new competencies for internal auditors (IPAI, 2007 – ND 2400).

1.3 INTERNAL AUDITING ADVANTAGES, USEFULNESS AND INFORMATION QUALITY

As mentioned, internal auditing must be understood as an instrument at the service of management, including public management. The systematic exam of evidence it involves allows independently assessing the performance of an organisation, programme, activity or public function, providing information that improve public responsibility (GAO, 2003).

In municipalities, the benefits expected from internal auditing must consider a set of variables that relate to the way each entity works, its effectiveness, credibility, prestige and public image (Torres Pradas and Salvador 1995), namely:

- The position of the internal auditing department within the organisational structure, in relation to the other municipal services/departments;

- The more or less interest from the top management in the internal auditing service;
- The objectives, scope and competencies of the internal auditing department and the way those are clearly stated and publicised;
- The way the auditing department is organised and the leadership role of the head responsible;
- The number of professionals in the auditing department, their specific training, capacity and professionalism, motivation and dedication.

Therefore, internal auditing in municipalities is a management instrument that might be used for solving existing debilities in several services. It is a service/department that continuously contributes to improve municipal management in a broad sense, considering its global and detailed knowledge of the municipality it is comprised within and the continuous and systematic assessment of the way this is working and is organised – it promotes economy, efficiency and effectiveness in using public resources, assuring accomplishment of municipal public policies and plans, at the same time as reliability of information for decision making.

Internal auditing is especially useful while delimitating expectations on the security degree given by the auditor to the accounts, processes and other situations to be analysed regarding which his opinion is issued – being useful, it cannot support all expectations regarding information credibility as well as legality, efficiency and effectiveness in the way managers act (Humphrey, 1991).

Amongst the theories supporting auditing usefulness², Humphrey (1991) refers as of particular interest within the public sector to one that has as fundament the public interest of the auditing function: an auditor within an organisation or the conscience by the agent of the existence of an effective control, have an dissuasive effect on undesirable practices in public management and accounts. Independence is a critical issue for the auditing good performance, therefore conditioning the quality and usefulness of the service provided; it is as much necessary as the auditing tasks are more involved in general management. In municipal internal

2 Humphrey (1991) also refers to agency theory and cost-benefit analysis.

auditing this becomes a complicated issue, given that auditors are also municipalities' employees (Hernández, 2001). Yet, hierarchic dependence must not be confused with autonomy while performing auditing tasks, essential for rigour and exemption in the analyses, and when presenting the conclusions and recommendations to the Executive. It is fundamental that the internal auditing activities are carefully planned and this plan approved by the Executive (Prieto *et al.*, 2002).

From above, it is almost redundant to state that, within a context where new management information requirements arise (for example, within 'municipal groups'), municipal internal auditing has a fundamental role in assuring financial information with quality enough to justify its usefulness. As in the private sector, municipal financial information must have several qualitative features (GASB, 1987; AECA, 1999; IFAC, 2001) that have therefore to be central in the internal (as for the external) auditor concerns. He/she must verify whether the available resources are adequate to assess both the information security and the risks (internal and external) exposure; he/she must also evaluate whether the threats are known on time and the appropriate corrective measures are taken, assessing at the same time the effectiveness of preventive measures. Subsequently, the auditor must also recommend the implementation or improvement of (new) controls, in order to assure information quality. Finally, one must highlight the reliability increasing and the transparency in the accountability process that have been offered by internal auditing, which are fundamental elements within the municipal new management model.

2. Auditing Standards applicable to Municipalities

The main international bodies that have been involved in issuing auditing standards applicable within the public sector context are the *International Organization of Supreme Audit Institutions* (INTOSAI) and the IFAC's *International Auditing and Assurance Standards Board* (IAASB), mainly for external auditing, while the *Institute of Internal Auditors* (IIA) has had particular intervention in internal auditing.

INTOSAI's (1997, 1998 and 2000) standards offer a framework of practices and procedures to be followed particularly by Supreme Audit Institutions (SAIs) when performing audits. IAASB's (2008) standards, directed to auditing professionals, aim at internationally harmonise auditing procedures, especially those related to financial statements auditing, as well as promoting auditing techniques and principles and increasing auditors reports understanding. IIA (2004) standards are basic principles to be followed while carrying out the auditing activity, so being a base to assess internal auditing performance and to promote organisations' processes and operations improvement.

Both INTOSAI's (1997 and 1998) and IAASB's (2008) standards comprise Basic Principles, General Standards, Standards of Procedures to Perform Audits ('field-work' standards involving planning, execution and concluding procedures), and Reporting Standards.

In order to discipline the auditing profession, the IIA has developed a *Professional Practices Framework* aiming at promoting an 'ethics culture' amongst the auditing profession, as well as supporting professionals that worldwide seek for offering a quality auditing service. From a Code of Ethics comprising Basic Principles (integrity, objectivity, confidentiality and competence) and associated Rules of Conduct, this framework has derived International Auditing Standards (IASs) and Recommended Practices to guide internal auditing practice internationally (Morais and Martins, 2007).

IIA's standards have been translated and adapted to internal auditing profession in Portugal by the Portuguese Institute of Internal Auditing (IPAI, 2007). On the other hand, INTOSAI's and IAASB's standards have been in the scope of the Portuguese Order of Certified Auditors (OROC, 2007).

It has been acknowledged that (businesses) auditing general principles are applied to public sector, namely governmental entities (IFAC, 2001). Therefore, there is within the public sector, a parallelism with the private sector objective of reinforcing the confidence in public entities management, which relates to other issues of creating a 'management culture', transparent and accountable to the community (INTOSAI, 1997 and 1998).

Subsequently, the normative framework that our empirical study referred to was fundamentally the Technical Standards of Revision and Auditing from the Portuguese OROC (2007). More specifically we have followed standards (DRAs) 230, 300, 410, 790 and 872 (OROC, 1998, 1999, 2000, 2003a and 2003b), as explained, in turn derived from INTOSAI's and IAASB's.

Table 1 summarises the OROC's basic Technical Standards of Revision and Auditing that have supported our questionnaire.

Table 1
Technical Standards of Revision and Auditing

General Standards		<ul style="list-style-type: none"> • Internal auditor independence • Written commitment stating the scope and nature of the work to be performed • Credibility of the assertions within the financial information • Presence of 'occurrence risk' in detecting errors and fraud • Possibility of resorting to external experts to issue an opinion
Fieldwork standards	Preparatory Actions	<ul style="list-style-type: none"> • Getting to know the entity and its business/activity • Critically appreciate significant facts • Critically appreciate both the accounting and the internal control systems • Analysing both the internal and external factors conditioning the entity's activity • Verifying whether the computing information systems affect auditing • Determining the auditing risk considering materiality limits
	Planning	<ul style="list-style-type: none"> • Establishing priorities in face of areas, operations, processes or documents to be audited • Increasing processes efficiency • Getting proofs by certain procedures (methods and techniques) and using more or less deep tests • Identifying the need and adequate resources • Preparing a schedule highlighting the audit estimated beginning and conclusion, including the activities/processes to be audited
	Execution	<ul style="list-style-type: none"> • Analysing expenditures financial regularity and legality • Analysing revenues financial regularity and legality • Assessing the self-control systems: revenue and expenditure cycles • Assessing the internal control system • Getting the proof using methods and techniques of: • Inspections, observations, verifications and comparisons • Substantive, trajectory and conformity tests • Calculations and other analytical procedures • Auditor conclusions adequately documented

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Reporting Standards	<ul style="list-style-type: none"> • Final results must be communicated in a formal way • Written justification of all entity's weaknesses and make recommendations ('follow-up') • Before preparing the final report, conclusions must be discussed with those responsible by the audited area • The reports delivered must be short, opportune, clear and concise • An opinion final statement must be issued
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Source: OROC DRAs 230, 300, 410, 790 and 872 (1998, 1999, 2000, 2003a and 2003b)

In the context of new management models in Portuguese municipalities, there has been an increasingly demand for auditing, both external and internal, as it is explained in the following section. This demanding has had particular importance in financial and budgetary issues, since the reform of municipal accounting in 1999, so financial statements auditing issues has been critical. Accordingly, Table 2 summarises the main budgetary, financial and cost statements that comprise the accounts to be audited, articulating with audits purposes.

Table 2
Accounts Auditing in Portuguese Municipalities

Accounts Statements	Financial Auditing purposes and features (DRA 872 – OROC, 2003b)
Budgetary Accounting:	It aims at establishing a quality control programme to:
<ul style="list-style-type: none"> • Expenditure control budgetary statement • Revenue control budgetary statement • Cash flow statement • Multi-annual investment plan annual execution statement • Annex to budgetary statements 	<ul style="list-style-type: none"> • Better assessment, increasing strong issues and trying to eliminate weak points in auditing performance; • Verifying GAAPs application; • Verifying the accomplishment of measurement criteria; • Evaluating the internal control system; • Verifying the attaining of (internal) rules and regulations; • Assuring economy (use of resources at the lowest possible cost), efficiency (getting the optimal relationship between outputs and used means) and effectiveness (supporting organisational objectives accomplishment).
Financial Accounting:	
<ul style="list-style-type: none"> • Balance Sheet • Operating Statement (by nature) • Annex to financial statements • Management report 	
Cost Accounting:	It issues and opinion on:
<ul style="list-style-type: none"> • Operating Statement (by functions) • Costs analytical statements by activities or functions 	<ul style="list-style-type: none"> • Adequacy while using public funds; • Legality fulfilment; • Financial regularity.

Given the focus on internal auditing and the importance of the internal control system (ICS) referred to in previous sections, we have considered the ICS in our study as an object of auditing, namely its components and functioning in articulation with the organisational structure.

3. Internal Control and Auditing in Portuguese Municipalities

Internal control issues in the Portuguese Public Administration have started to be acknowledged as important within the so-called State Financial Management Reform (SFMR), which formally started with the Public Accounting Bases Law (Law 8/90). This law established the accounting regimes to be applied to governmental entities, either with administrative autonomy or with both administrative and financial autonomy. Regarding control, it stated that public entities budgetary management should be done via a system of systematic and successive control and, when needed, using accounting direct verification. Furthermore, financially and administratively autonomous entities should have internal control means, technically independent from the management bodies.

Budgetary Framework Law (Law 6/91)³, defining rules and procedures for the State Budget preparation and execution, establishes that those services responsible for preparing the budget and governmental accounting should develop and maintain an internal control system associated to the budget, for which auditing firms services might be requested. Law-decree 155/92, complementing the Public Accounting Bases Law, comes to conciliate the autonomy requirements with the need for more and rigorous control, namely concerning public expenditures authorisation. Successive control aims at evaluating the decision and internal control systems, as well as assessing the legality, financial accuracy, economy, efficiency and effectiveness of the entities financial management. Budgetary management should be controlled in three perspectives: auto-control (by internal services within entities); internal control, successive and systematic, done by external entities auditing the services; and external, jurisdictional control, by The Court of Accounts (supreme auditing body).

3 Meanwhile revoked by Law 91/2001, but maintaining those broad issues concerning internal control.

Within the SFMR, particularly enhancing the financial control revision and reinforcement, Law-decree 166/98, complemented by Regulator-decree 27/99, established the Internal Control National System. These regulations aimed at organising the State Financial Management internal control system, assuring its exercise in a coherent and articulated way. Internal Control is defined as “the verification, monitoring, evaluation and information about legality, regularity and good management, concerning activities, programs or projects with interest, within public entities management”. It aims at introducing an articulated model, structured in three levels of control – operational, intermediate and strategic, defining the entities held responsible in each of these levels⁴. The first (operational) level of control is of the responsibility of inspective, auditing or control services within each entity to be controlled, and concerns management decisions verification, monitoring and information.

Within the Portuguese Local Administration in general (both administrative and business entities) auditing and control is legally pursued by several bodies, such as:

- The Court of Accounts
- Finance General Inspection
- Territor y Administration General Department
- Controlling Board or Single Controller (for business companies)
- Internal Control Services
- Municipal Councils, Municipal Business Companies Councils
- Order of Certified Official Auditors (OROC)
- Citizens

The role of each of these bodies and their forms of control within Local Administration, particularly concerning the accounts and results control, is fundamental while municipalities develop new forms of delivering public services and accomplishing their functions.

4 For further on this subject, see Costa (2008: 41).

Most of those bodies are responsible for external control, being The Court of Accounts the supreme auditing body according to the Portuguese Republic Constitution, which is responsible for controlling public expenses legality as well as for certifying all governmental entities accounts. Therefore, this body has today the highest responsibility regarding public sector (external) auditing. Concerning municipalities, there is expenditures previous control, assessing management actions legality, economy, efficiency and effectiveness, including the internal control system reliability, and accounts (successive) verification (TC, 1999). Municipalities' accounts are submitted individually to The Court of Accounts by each entity belonging to the 'municipal group', and subsequently audited *a posteriori*, at distance, using procedures of analytical revision. Nonetheless, occasional (inside) audits might come to happen, when the need arises (Carvalho, 2006).

In what concerns internal control and auditing, within a broader reform in municipal management, several financial management, accounting and internal control instruments have been introduced in Portuguese municipalities, namely associated to increasingly more elaborated organisational structures and of service provision. These instruments have implied critical analyses, identification of information gaps and the need for further developments in municipal auditing. In fact, municipalities have been devolving their services to 'satellite units' such as Municipalized Service Units, Municipal Business Companies, Municipalities' Associations, Foundations, public-private partnerships, concessions, etc. (Mesa and Rivas, 2001). Each one of these intervention forms has different juridical and accounting regimes, as well as different levels of financial and economic autonomy, therefore requiring different levels of coordination, control and risk management by each municipality. Regarding auditing, several of those types of entities (e.g. Municipal Business Companies) apply hybrid systems, combining the typical forms of governmental accounts control and auditing as that from The Court of Accounts, with accounts certification as a business corporation.

As municipalities' competencies and activities has evolved, more accounting and financial information for management support has been demanded. In the context of governmental accounting reform, a Plan of Accounts for Public Accounting (PAPA – Law-decree 232/97) was passed, which the Plan of Accounts for Local

Government (PALG – Law-decree 54-A/99) has been derived from, integrating in the same system budgetary (cash-based), financial and cost (both accrual-based) accounting. This more informative accounting and financial system is capable of better supporting municipalities' management, apart from showing municipalities' financial and economic position (Caiado and Pinto, 1997). The main financial statements now relate to both budgetary and financial accounting: Budgetary Statements (Revenue Control, Expenditure Control and Cash Flow), Operating Statement, Balance Sheet and Notes (Carvalho *et al.*, 2006; TC Resolution 4/ 2001).

The new local government accounting system has become an essential instrument for economic planning (fiscal policy, budgetary deficit management, financing policies, etc.), municipal management (budgetary execution and control), performance evaluation and internal and external auditing (possibility of allocating responsibilities) (Carvalho *et al.*, 2005; 2008).

Within this 'new' more informative municipal accounting, with consequent requirements for greater verification, monitoring and control, internal auditing is a lever for modernisation and an instrument for analysing municipalities' real situation. Resorting to internal auditing comes also from the need for estimating and controlling the risk and consequently supporting decision-making. The entities' management bodies must be the first ones using internal auditing to support decision making, translating their results in concrete measures for correcting economy, efficiency and effectiveness in their activities. Internal auditing in a municipality has therefore a preventive, supportive and corrective function (Torres Pradas and Salvador, 1995; CM, 1997; Torres Pradas and Pina Martínez, 1999).

Accomplishing with Law 169/99, amended by Law 5A/2002, concerning competencies of municipalities' internal bodies, a Regulation for Internal Auditing Offices within municipalities has been approved – they are supposed to assure cost constrictions through procedures simplification and improvements at the levels of administrative, financial and property management, as well as reinforcing support to municipal administrative modernisation.

Within the regulation approving the PALG (Law-decree 54A/99) municipalities are obliged to implement and develop an Internal Control System (ICS). However,

this ICS does not aim the existence of a specific body for control, but a set of procedures and transactions processes within the financing system (Carvalho *et al.*, 2006).

OROC's directive DRA 410 (OROC, 2000) defines ICS as "all policies and procedures (internal controls) adopted by one entity's management that contribute to attain management's objectives of assuring, as much as practicable, that the business is efficiently and orderly driven, including adherence to management policies, assets safeguard, prevention and detection of error and frauds, rigour and plenitude of accounting records, accomplishment of laws and regulations and on time preparation of reliable financial information".

According to Carvalho *et al.* (2006) the internal control within municipalities is a process carried out by both the management and all personnel, designed to offer reasonable safety to the entity, in order to accomplish their objectives in three essential areas: operations efficiency and effectiveness; financial reporting reliability; and conformity with laws and regulations. It might be understood beyond matters relating directly to the accounting system, embracing five components represented in Table 3, that need to work simultaneously for the ICS to be effective.

Table 3
Internal Control components

Monitoring:	INTERNAL CONTROL	Control procedures:
<ul style="list-style-type: none"> • ICS performance evaluation • Combing management with both internal and external auditing • Corrective actions in useful time • Control over controls 		<ul style="list-style-type: none"> • Procedures assuring that directives are implemented • Approvals, authorisations, verifications, recommendations, performance revisions, assets security and functions segregation, in order to minimise the risks
Information and Communication:	Control environment:	Risk evaluation
<ul style="list-style-type: none"> • Relevant information communicated at an adequate time frame • Information flows: instructions, responsibilities and reports addressing identified gaps 	<ul style="list-style-type: none"> • Internal control influence over the whole entity • Integrity and ethic values, competency, ways of allocating authority and responsibility 	<ul style="list-style-type: none"> • Related and consistent internal objectives at different levels • Identification and analysis of relevant risks • Definition of a base to deal with risks

Source: PriceWaterhouseCoopers (2005)

The inclusion of an ICS in the PALG conveys the need for municipalities to apply uniform control and validation procedures. In each municipality it must be developed, approved and monitored by the Executive board.

The ICS comprises internal bodies organisation and functioning criteria (organising plan), internal control policies, methods and procedures, as well as any other methods and procedures set by municipalities' heads (e.g. plan of accounts; internal auditing procedures manual; inventories, property and working capital regulations; etc.), contributing to assure that activities are developed orderly and efficiently (PALG, section 2.9.1). It appears as the power and duty that the Executive board, heads and supervisors have of controlling the activities of municipalities' financial services. Its main objectives are (PALG, section 2.9.2):

- Safeguarding legality and regularity concerning preparing, executing and modifying estimated budgetary statements, as well as preparing financial statements and dealing with the accounting system;
- Fulfilling both with the boards deliberations and with the decisions of their members;
- Property safeguarding;
- Documents approval and control;
- Assuring rigour and accuracy in the accounting records and thus reassure financial information reliability;
- Increasing operations efficiency;
- Adequate use of funds and accomplishment of the legal limits for spending;
- Controlling computing applications and environment;
- Transparency and competition within public markets;
- Operations recognition in an opportune way, for the right amount, in the appropriate documents and ledgers within the year they belong, in accordance both with management decisions and legal standards and requirements.

In practice, the ICS in Portuguese municipalities has been developed by preparing manuals expressing the internal control objectives as well as a few ways of putting

it in practice. The ICS implementation effectiveness is very much depending of municipalities' attitude towards control ('culture of control') as well as from the internal structures that have been created to assure and spread its permanent accomplishment and improvement. Therefore, an Internal Audit Service seems to have here a major role in verifying, monitoring, evaluating and informing on the legality, regularity and good management, relating to activities, projects or other operations carried out by municipalities' services. As Carvalho *et al.* (2006) highlight "creating internal audit services will become indispensable to follow the functioning and permanent updating of the implemented Internal Control Systems". Recently, a new Local Finance Law (Law 2/2007) brought significant changes in what concerns municipalities auditing, in the sense that requirements were made for municipal accounts to be audited and certified by public auditors, apart from the aforementioned Court of Accounts. This requirement is for municipalities and municipalities' associations that are shareholders in municipal business companies or foundations (art.48). This requirement has undeniable advantages for increasing transparency and reliability of municipalities' accounts and financial information, as well as of the Management Report, and subsequently for improving municipalities' accountability⁵ (Carvalho *et al.*, 2008). It is a major step towards better quality information for both reporting on using public resources and supporting internal management.

Despite the requirement relating essentially with external auditing, as the law introduces control and coordination systems articulated with accounts auditing (n.45), it is expected that this auditing reinforcement will also have consequences in internal auditing, since it raises the need for more internal control in order to assure that the external auditor does not find any reservations for the certifications to be made. Additionally, in the context of the 'municipal group', a municipal Internal Auditing Service will work as a controller for the participated entities. Therefore, one may say that the new Local Finances Law brought the accountability process in municipalities closer to the private business companies' perspective.

5 Accountability of the Executive board concerning managing and using public resources should be understood not only in a financial perspective, but also in managing and implementing pre-established programmes as well as planned and approved activities (Carvalho *et al.*, 2008).

4. Empirical Research

4.1 METHODOLOGY

The purpose and research questions point to an analysis essentially descriptive and interpretative. Furthermore, it is included in the quantitative paradigm, focusing on description, induction and personal perspectives analysis. Choosing a quantitative research and obtaining descriptive data, one will emphasise the data collection process, having as main concern reproducing the participants' perspective (Bogdan and Biklen, 1994). Though essentially quantitative, this study does not put aside the qualitative approach, since it also explores the data in order to get more information and closer to the reality we are trying to understand, i.e., the internal auditing in Portuguese municipalities.

Subsequently, this study has as **general purpose** studying the existence and implementation of internal auditing procedures and other issues, including the existence of Internal Auditing Services and internal Certified Auditors in Portuguese municipalities, aiming at answering the following **research questions**:

- Are there specific offices, internal auditors and internal auditing detailed procedures, namely in order to verify the PALG application concerning Financial, Budgetary and Cost Accounting subsystems, as well as the application and functioning of the Internal Control System (ICS)?
- What is the importance given to internal auditing procedures and other issues, either existent or not?
- What is the possibility of adopting other internal auditing standards and procedures, namely what is the possibility of some external auditing standards and procedures (e.g. national used in the private sector and even international) might come to be used as well?

Answering the two first questions requires a more **descriptive approach**, while the third one points to a more **exploratory perspective**. The basic assumption, namely for question 3, is that a few procedures and other issues included in external auditing standards (national and international, both from the private and the public

sector) might be important to improve municipalities' internal auditing process and, consequently, improve quality, reliability and transparency in the information they disclose. Answering these questions, in our point of view, might contribute to better internal auditing in Portuguese municipalities and consequently to municipal management. From this 'model' of municipal internal auditing that we will seek to suggest it is expected better transparency and better use of municipal money, envisaging a 'New Public Auditing' (parallel to the *New Public Management*).

In this research one expect that the larger the municipality, more complex its organisation and larger the diversity of services provided. Subsequently, larger is the probability of needing and hence implementing, internal auditing procedures and other issues, namely Internal Auditing Service/Office and internal Certified Auditor. Therefore, as the population and budget total (representing the municipalities size) increase, one expect an increasing need for internal auditing, as an approach for an effective process of planning, execution and annual reporting concerning the entity dimension (Mcnamee and Selim, 1998). Additionally, the implementation of an ICS is also a motive for the existence of internal auditing, since the latter might be seen as a consequence of the first one. From this we will test the following **research hypotheses**:

1. The existence of an Internal Auditing Service (department or division) is positively related with the municipality dimension (budget total or population).
2. The existence of an Internal Auditing Service (department or division) is positively related with the implementation of the ICS.
3. The municipality dimension (budget total or population) determines the types of internal auditing developed.
4. The municipality dimension (budget total or population) positively determines the implementation of internal auditing standards and procedures.
5. The implementation of the PALG accounting subsystems and ICS determines the elements that are object of internal auditing.

As data collection technique, in a first stage we have used **interviews** with the purpose of accessing to issues that the researcher was not aware of (Quivy and

Campenhoudt, 1992). Specifically, four not-structured semi-direct interviews (Rojas, 2001) were made (based on a guide-list of 10 questions⁶) in the few municipalities that have already implemented an Internal Auditing Service – to the head of this service. The purpose was getting information that would support the construction of a **questionnaire**, the main technique to be used, since internal auditing information is not disclosed by municipalities.

The questionnaire came up to be the most adequate data collection instrument, considering the universe dimension – it allows lower costs compared to other methods as well as better celerity in collecting and dealing with the data (Bogdan and Biklen, 1994; Muñoz, 2003).

The questionnaire to be used was developed aiming at getting a global perception on the practice and procedures of internal auditing within each municipality, as well as the importance given to those. Therefore, its purpose was twofold: on the one hand, identifying which practices and other internal auditing issues (focusing on economic and financial auditing) are adopted by Portuguese municipalities; on the other hand, assessing the importance given to those, one seek to analyse whether the adoption of certain procedures, included in external auditing standards (private or even international), might come to improve the process of municipal internal auditing.

The majority of the questions were close and essentially of qualitative nature, despite of few quantitative (e.g. budget total). Two types of scales were used in order to improve the study validity and consistency (Cruz, 2004): a nominal VAS-type scale for mutual exclusive answers, and an ordinal Likert scale for alternative answers. The latter comprised five levels, where 1 was ‘Nothing Important’ and 5 ‘Very Important’. A total of 17 questions were organised in four parts: Part

6 These main questions (completed with sub related questions) embraced topics such as: the importance of implementing an Internal Auditing Office (or Department) for the organisational dynamics, structural improvements and employees involvement; the contribution from the adoption of private sector, external and/or international auditing standards for improving the Financial, Budgetary and Cost Accounting subsystems procedures as well as the ICS; and the importance of an internal auditor for the municipality, concerning the use of analytical procedures and identifying material relevant situations, that might compromise financial statements reliability.

I (questions 1 to 8) regarding municipality characterisation, namely about budget total, associate entities, accounting and internal control systems implementation and the existence of a Certified Accountant; Part II (questions 9 to 14) concerning the existence and general characterisation of the Internal Auditing Service, as well as reasons for its non-existence and types of internal auditing developed; Part III (questions 15 and 16), central for this study, about internal auditing standards, techniques, and practices, existent in the municipality, as well as general features of those elements⁷; and Part IV (question 17) with the purpose of assessing which issues are (or might be) object of economic and financial municipal internal auditing. In Parts II to IV, even if neither applied nor existent, municipalities were asked to sign the importance given to those issues, in the eventuality of they come to be present.

The questionnaire was validated as a pilot version (Deshaies, 1992) sent to the Head of the Internal Control Department in the municipality of Alcobaça. The final version was sent to all 308 Portuguese municipalities at the end of November 2007. After several attempts for getting as much answers as possible, the data collection period was considered concluded at the beginning of June 2008. 84 valid questionnaires were received, i.e., the sample is about 27% of the population.

Data analysis methods follow two perspectives: ‘uni-varied’ and ‘bi-varied’. In the first we use frequencies analysis and descriptive statistics measures, namely for the sample description; in the latter we compare groups of variables, in order to test the hypotheses, using crosstabs, Qui-square tests (at 5% significance level) and Pearson’s correlation coefficients (Pestana and Gageiro, 1998).

7 The contents of these questions were based on the Auditing Manual of the Portuguese Order of Certified Official Auditors (OROC, 2007).

4.2 MAIN FINDINGS PRESENTATION AND DISCUSSION

4.2.1 *Sample main features*

As mentioned, the study used a sample of 84 out of 308 municipalities, i.e. 27.3% of the total population. Table 4 shows how municipalities are regionally distributed. It can be observed that the distribution of municipalities in the sample is similar to that in the population, with the majority of the municipalities coming from the Centre and North of Portugal. Additionally, as in the population, the majority (50%) of municipalities is small, i.e. with less than 20,000 inhabitants; less represented are large municipalities, i.e. with a number of inhabitants of 100,000 or over. Since the sample is probabilistic, it may be said that it is representative of the population, allowing generalising the results.

Table 4
Sample regional distribution

	Sample		Population		Sample / Population
	Frequency	%	Frequency	%	%
Alentejo	16	19.0	58	18.8	27.6
Algarve	6	7.1	16	5.1	37.5
Centre	28	33.3	100	32.4	28.0
Lisbon	7	8.3	18	5.8	38.9
North	18	21.4	86	27.9	20.9
Azores	6	7.1	19	6.1	31.6
Madeira	3	3.6	11	3.5	27.3
TOTAL	84	100.0	308	100.0	27.3
Small	42	50.0	178	57.7	23.6
Medium	31	36.9	68	22.0	45.6
Large	11	13.1	62	20.1	17.7

Municipalities in the sample have, on average, 558 employees, and an average budget total of 209 million euros. As to associated entities, 15.5% have Municipalized Services Units, while 52.4% have Municipal Business Companies; however, there was a non-responding rate of around 25%.

Regarding the PALG implementation, Table 5 shows that every municipality that answered the questionnaire has implemented Budgetary and Financial Accounting; the Internal Control System is implemented by over 80% of municipalities, while Cost Accounting is the PALG subsystem less implemented (27.4%).

Table 5
PALG implementation

	Budgetary Accounting		Financial Accounting		Cost Accounting		Internal Control System	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Yes	82	97.6	83	98.8	23	27.4	69	82.1
No	0	0.0	0	0.0	51	60.7	9	10.7
Total of answers	82	97.6	83	98.8	74	88.1	78	92.8
No answer	2	2.4	1	1.2	10	11.9	6	7.1
TOTAL	84	100.0	84	100.0	84	100.0	84	100.0

Only 31% of municipalities have a Certified Accountant, the majority of which are of medium size (between 20,000 and 100,000 inhabitants). Small municipalities prevail among those that do not have a Certified Accountant.

4.2.2 Internal auditing characterisation

In Table 6 one can see that the great majority of municipalities do not have either Internal Auditor or Internal Auditing Service (IAS). In fact, only 13.1% have an IAS while around 18% have declared to enclose other related services, namely an Internal Management Control Office.

Table 6
Internal Auditing

	Internal Auditor		Internal Auditing Service		Other related services	
	Frequency	%	Frequency	%	Frequency	%
Yes	11	13.1	11	13.1	15	17.9
No	67	79.8	70	83.3	17	20.2
Total of answers	78	92.9	81	96.4	32	38.1
No answer	6	7.1	3	3.6	52	61.9
TOTAL	84	100.0	84	100.0	84	100.0

As to the importance given to those items, 31% of municipalities find the existence of an Internal Auditor as having ‘Some Importance’ (level 4) while 17% find it ‘Very Important’ (level 5). Regarding the IAS, more than half of municipalities find it of high importance (33.3% ‘Very Important’ and 21.4% ‘Some Importance’). In what relates the reasons justifying the non existence of an IAS, Table 7 shows that 1/3 of municipalities point to lack of adequate (trained) human resources, while around 29% refer to the lack of technical resources. Also 29% answered has having no need for such a service; other reasons stated by around 20% relate to municipality’s dimension or the fact that internal auditing is performed by an external auditor.

Table 7
Reasons for non existence of Internal Auditing Service

	Lack of technical resources		Lack of adequate human resources		Not necessary		Other	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Yes	24	28.6	28	33.3	24	28.6	17	20.2
No	25	29.8	27	32.1	25	29.8	3	3.6
Total of answers	49	58.3	55	65.5	49	58.3	20	23.8
No answer	35	41.7	29	34.5	35	41.7	64	76.2
TOTAL	84	100.0	84	100.0	84	100.0	84	100.0

Only 6% of municipalities have created an IAS or Internal Auditor before the PALG implementation; 19% have developed those after the PALG's requirements, namely concerning an ICS. Additionally, from those 11 municipalities having IAS, 3 (27.3%) believe it is 'Very Important' that it reports directly to the Mayor; only one municipality answered as 'Very Important' to report to the Financial Department, and another answered it is 'Very Important' to report to the Municipal Assembly/Council (Deliberative committee). In those IASs there are, on average, two people employed; however they rarely have specific degrees on internal auditing. Yet, 6 out of 11 municipalities (54.5%) claim that they have a constant concern in training and updating their professionals about auditing standards and procedures. This constant training is considered 'Very Important' by 3 municipalities (27.3%).

Table 8

Types of Auditing performed by the Internal Auditing Service

	Financial-Economic Auditing		Quality Auditing		Environmental Auditing		Management Auditing		Legality Auditing	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Yes	6	54.5	2	18,2	1	9.1	4	36.4	6	54,4
No	1	9.1	4	36.4	5	45.5	2	18.2	0	0,0
Total of answers	7	63.6	6	54.6	6	54.6	6	54.6	6	54.4
No answer	4	36.4	5	45.4	5	45.4	5	45.4	5	45.4
TOTAL	11	100.0	11	100.0	11	100.0	11	100.0	11	100.0

In what concerns the types of auditing performed by the IASs, Table 8 shows that the majority performs Financial-Economic audits (i.e. audits to the accounts) as well as Legality (budgetary) audits. Most of the respondents do not perform Quality nor Environmental audits. Management (Operational) audits are performed by around 36% of those services. Legality audits are considered 'Very Important' by 36.4% of the respondents, while Financial-Economic, Quality and

Management Audits are ‘Very Important’ for only 27.3%. Environmental audits are generally considered less important.

4.2.3 *Internal auditing standards and procedures (Uni-varied analysis)*⁸

Regarding internal auditing standards and procedures used by municipalities, Table 9 shows that, for all listed items the non responding rate is over 50%, i.e. more than half of municipalities of the sample did not answer.

Among those responding, the higher rates of positive answers relate to ‘critically collecting and appreciating significant facts’, ‘critical appreciation of both the accounting and the internal control systems’, ‘analysis of the internal factors conditioning the municipality activity’ and ‘analysis of the Executive’s activities report of the year’, within the Fieldwork Preparation. Expressive percentage appears also in ‘considering The Court of Account’s opinion regarding the municipality’s accounts’ in the Fieldwork Development. In the negative side of the answers, one highlight within the Fieldwork Development ‘asking the Executive to declare their responsibility on the accounts, ICS maintenance and information presented for auditing’; in the General Standards and Practices ‘the internal auditor resorting to external experts’; and in the Fieldwork Preparation ‘determining the auditing risk, defining materiality limits’, all of them non practiced by more than 30% of municipalities.

As to the importance given to internal auditing standards and practices, even if not implemented by the municipalities, Table 10 shows that, despite the non responding rate of over 40% for every item, the valid answers clearly concentrate on the high levels of importance, highlighting specially procedures of ‘independence between the internal auditor and his/her hierarchic superior’ and ‘considering The Court of Account’s opinion regarding the municipality’s accounts’, pointed as ‘Very Important’ by almost 40% of the municipalities. The procedure considered ‘Nothing Important’ for more municipalities is ‘asking the Executive to declare their responsibility on the accounts, ICS maintenance and information presented for auditing’, though signed by only 3.6%.

8 The discussion here relates to Tables 9 to 14 displayed in the Appendix.

In Table 11 one can observe that, in face of the scope of the internal auditing general objectives, over 40% of municipalities consider that it allows ‘accomplishing with legality’. The objectives that follow are ‘assuring trust in accounting records and statements’ and ‘assuring operational efficiency and effectiveness’. On the other hand, there is a significant group of municipalities that does not consider characteristics such as ‘from the auditing report sanctions might come to be applied to the competent bodies’, nor that those characteristics allow ‘applying adequate analytical procedures’. As to the importance level presented in Table 10, although the non-responding rate is over 40% in all items, in general respondent municipalities consider the listed characteristics as having ‘Some Importance’ or being ‘Very Important’. Amongst the ‘Very Important’ are ‘assuring trust in accounting records and statements’ and ‘accomplishing with legality’, signed by almost 50% of municipalities. Amongst those of ‘Some Importance’ are the facts that the internal auditing standards and procedures offer the ‘possibility of the auditor developing a systematic evaluation of situations’ and the ‘possibility of the auditor measuring according to the identified criteria’, signed by more than 25% of municipalities.

Issues object of internal auditing are displayed in Table 13, where one can observe that from 40% to 50% of municipalities did not answer to these questions. Many, however, signed as they were auditing the great majority of the listed issues. In first place come those issues concerning the ICS, audited by a percentage of municipalities that range from 26.2% for ‘Other Manuals of Procedures’ to 47.6% for ‘Internal Control Norm’. Subsequently are issues related to Budgetary Accounting, ranging from 33.3% of municipalities auditing the ‘annual execution of the Multi-annual Investment Plan’ to 39.3% auditing the ‘Budgetary Execution – procedures to collect revenue’. Next to these issues are those concerning Financial Accounting, ranging from 32.1% of municipalities that audit the ‘application of the specific measurement criteria to Public Domain Assets (PDAs)’ to 39.3% that audit the ‘classification of debts and receivables as long and short term’. The less audited issues (more municipalities with negative answers) relate to Cost Accounting – around 40% does not audit those. Such percentages are understandable considering the still lower level of implementation of Cost Accounting amongst Portuguese municipalities (Carvalho *et al.*, 2008).

As to the importance given, regardless whether these issues are practiced by municipalities, Table 14 shows a clear concentration in the upper levels of importance, where issues as ‘applying budget preparation rules’, ‘adequacy of the ICS features to the municipality’s activities’, ‘Internal Control Norm’, ‘procedures compliance with laws and regulations’, ‘adequate use of municipal funds’ and ‘accomplishing with ICN requirements for ‘Cash and Deposits’, ‘Debts and Receivables’ and ‘Inventories’ are pointed as ‘Very Important’ by more than 40% of municipalities (Budgetary Accounting and ICS). Amongst those issues pointed as less important (although with only around 8% of municipalities) one may underline within Financial Accounting the internal auditing of ‘PDAs and respective depreciations’ and ‘classification of debts and receivables as long and short term’.

4.2.4 Hypotheses tests (Bi-varied analysis)

Bi-varied analysis consists in examining answers to two different questions, aiming at search for influences, causality or coincidences. The meanings of the comparisons that guide the statistic analysis allow us to test the pre-established hypotheses, confirming or rejecting.

Hypothesis 1 – The existence of an Internal Auditing Service (department or division) is positively related with the municipality dimension (budget total or population)

This relates the implementation of an IAS with the municipality dimension measured either in population or budget total. While analyzing the variables a strong correlation (0.936) was found between ‘population’ and ‘budget total’ – the larger the population, the higher the budget total. Therefore, for the hypothesis test only the ‘population’ was considered.

Considering a Qui-square reference value of 5.99146, the independence test results (15.284) lead to rejecting the null hypothesis, so the variables are not independent, i.e., there is an association between the existence of an IAS and the municipality size. Cross tabulation analysis shows that as the municipality population increases, there is also an increasing in the existence of the IAS. Therefore, Hypothesis 1 is corroborated.

Hypothesis 2 – The existence of an Internal Auditing Service (department or division) is positively related with the implementation of the ICS

The Qui-square test value is now 1.728 indicating that the null hypotheses is accepted and so the variables are independent, i.e. there is no relationship between the ICS implementation and the existence of an IAS. However, since the significance level is 0.189 (higher than $\alpha=0.05$), there is a lower level of trust in this conclusion. A direct cross tabulation analysis, as the Pearson's coefficient, seems to point to a negative association. Consequently Hypothesis 2 seems to be rejected since, although with lower confidence, variables IAS and ICS tend to be independent. If there would be a correlation, this would be negative.

Hypothesis 3 – The municipality dimension (budget total or population) determines the types of internal auditing developed

Here we have admitted that municipality size might affect the types of internal auditing developed. As in Hypothesis 1 and for the same reason, we have used the variable 'population' only. The Qui-square value is 2.275, which would lead, in a first glance, to accept the null hypothesis of independence. Yet, the significance level of 0.321 does not allow enough trust in this conclusion. Both the Pearson's coefficient and the cross tabulation analysis show some (weak) relationship between the variables: Management (Operational) and Legality Audits seem to prevail in larger municipalities, while Quality and Environmental Audits seem to prevail in smaller municipalities (although in these the non-responding rate is over 70%). As to Financial-Economic Audits, the size effect is not noticed, since in general they are developed in municipalities of all sizes (rates over 50%). In summary, Hypothesis 3 cannot be rejected trustily.

Hypothesis 4 – The municipality dimension (budget total or population) positively determines the implementation of internal auditing standards and procedures

Here it was admitted that larger municipalities would implement more internal auditing standards and practices. As before, only the 'population' variable has been used. The Qui-square test values allowed to reject the null hypothesis only for three procedures included in the Auditing Reporting Practices: 'in special cases, the nature and object of the auditing work is identified', 'in the auditing report

or simplified exam there is a description of the responsibilities of the Executive, of the auditor him/herself and of the scope of the work developed' and 'complementary information is presented'. To all other procedures, the relationship with the municipality size is not confirmed, given the high significance levels.

Pearson's coefficients show positive though very weak correlations between these variables, so again the association between the municipality dimension and the internal auditing standards and practices implemented cannot be totally confirmed – Hypothesis 4 is not totally corroborated.

Hypothesis 5 – The implementation of the PALG accounting subsystems and ICS determines the elements that are object of internal auditing

In this hypothesis one have admitted that the implementation of both the accounting subsystems and the ICS (PALG) affect the issues aimed by the internal auditing. Regarding the relationship between the audited elements and the implementation of the accounting subsystems (Budgetary, Financial and Cost Accounting), Qui-square test results are not conclusive, given the high significance levels. As to the ICS implementation and the auditing of the elements it comprises, the association is confirmed only for three issues: 'control organising plan, policies, methods and procedures', 'definition of control functions' and 'characteristics of the written documents that are included in the internal administrative processes'. This means that, only for these, the fact that the municipality has implemented the ICS determines that they are object of internal auditing. On the other hand, for six other issues ('Internal Control Norm', 'internal regulations', 'accounts plan', 'eventual redundancy', 'accomplishing with ICN requirements for Cash and Deposits' and 'accomplishing with ICN requirements for Debts and Receivables') independence has been accepted. Therefore, Hypothesis 5 is only partially corroborated.

Conclusion

Besides those traditional and important functions of certifying that operations have been dealt adequately in the accounting system, that there was no fraud, that

financial statements present fairly the entity's budgetary, financial and economic situation, of assessing and contributing for improving the ICS and for this become more effective, auditing have been moving towards broader and more complex matters concerning management, starting to perform a more acting and dynamic role in searching solutions for improving municipal efficiency.

In an environment of greater municipal dynamic and complexity, new tendencies arise for Portuguese municipal internal auditing, focusing on standards that have been used in the private sector and internationally, in risk management and governance, which consequently might improve quality, reliability and transparency in information, either for internal management or external reporting purposes. This research appears in this context, attempting to access which internal auditing standards and procedures are used in Portuguese municipalities, as well as the importance they are (would be) given, regardless their application. Standards, procedures and other related issues considered in the questionnaire intended to embrace the above-mentioned new tendencies for municipal internal auditing.

In the theoretical sections of this paper we have addressed, with a municipal focus, the main auditing concepts, as well as internal auditing evolution and actual process, advantages and usefulness. We have also referred to auditing (international) standards as well as the legal framework for internal control and auditing in Portuguese municipalities.

From the empirical study, based on a questionnaire answered by a sample of 27%, we have reached the following main conclusions:

- The major part of municipalities has implemented the PALG, namely the Budgetary and Financial Accounting subsystems, as well as the ICS; the exception is the Cost Accounting subsystem.
- The majority of municipalities does not have a Certified Accountant.
- The greater part of municipalities does not have an IAS and/or Internal Auditor, although they are generally found important. Reasons given for the non existence of these are essentially lack of technical and human resources as well as that service was not found as needed so far.

- Most municipalities that have an ICS, have developed this after the PALG implementation.
- Most part of the respondents believes as important that the IAS report directly to the Mayor.
- In municipalities with IAS, economic and financial audits prevail, as well as legality and operational audits; these are also the audits types given higher importance.
- Regarding auditing practices and standards implemented, despite a non-responding rate of over 50%, municipalities concentrate their internal auditing practices in Fieldwork Preparation; in Fieldwork Development, the more implemented practice concerns 'considering The Court of Accounts opinion regarding municipalities' accounts'. As to the importance of these practices and standards, even if not applied, the great majority finds all of high importance.
- As to internal auditing standards and procedures general features, also considering a non-responding rate of around 50%, the majority stated that those should fundamentally 'accomplish with legality', 'assuring trust in accounting records and statements' and 'assuring operational efficiency and effectiveness'; the level of importance given to all features are also high.
- Despite a non-responding rate of around 40%, the majority of municipalities audits every issue regarding Budgetary Accounting, Financial Accounting and the ICS; even for those non-audited elements within Cost Accounting, the importance given for them to be audited is high.
- There seems to be a direct relationship between the municipality size and the existence of an IAS – this tends to exist in larger municipalities.
- Although with low confidence, there are signs of independence between the ICS implementation and the existence of an IAS.
- One cannot conclude for sure that municipality size determines the internal audits types that are developed; on the other hand, municipality size

only determines the implementation of a few internal auditing procedures and standards, particularly those relating to Auditing Reporting.

- One cannot conclude that the implementation of the PALG accounting subsystems determine those respective issues to be internally audited; as to the implementation of the ICS, this determines only three out of seventeen elements to be audited.

In spite of the limitations we have found, namely those related to the lack of studies in municipal internal auditing and the non-responding rate to a few questions in the questionnaire, we believe we can say that, up to a certain point, this research has contributed to access that there is still a lot to do concerning developing and implementing internal auditing standards, procedures and other related issues in Portuguese municipalities. Nonetheless, considering the high importance given by themselves to those not applied standards and practices (inspired in private sector and international standards), allow us to state that Portuguese municipalities are aware of the importance internal auditing has in improving their financial information quality and transparency. Additionally, also perceiving the paradigmatic evolution that municipal internal auditing has undergone, namely embracing issues relating risk management, a model of ‘New Public Auditing’ appears to be developing, in parallel to the *New Public Management*.

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Appendix
Table 9
Internal Auditing Standards and Practices

	Yes		No		No Answer		TOTAL	
	Freq	%	Freq	%	Freq	%	Freq	%
GENERAL STANDARDS AND PRACTICES:								
Independence between the internal auditor and his/her hierarchic superior	16	19.0	25	29.8	43	51.2	84	100.0
Professional external to the municipality – written agreement about the work to be developed	17	20.2	21	25.0	46	54.8	84	100.0
The internal auditor resorting to external experts	9	10.7	29	34.5	46	54.8	84	100.0
FIELDWORK PREPARATION:								
Critically collecting and appreciating significant facts	24	28.6	18	21.4	42	50.0	84	100.0
Critical appreciation of both the accounting and the internal control systems	24	28.6	17	20.2	43	51.2	84	100.0
Analysis of the internal factors conditioning the municipality activity	24	28.6	18	21.4	42	50.0	84	100.0
Analysis of the external factors conditioning the municipality activity	20	23.8	22	26.2	42	50.0	84	100.0
Analysis of the Executive's activities report of the year	22	26.2	19	22.6	43	51.2	84	100.0
Assessing the way computing information systems affect auditing	18	21.4	22	26.2	44	52.4	84	100.0

continuación

	Yes		No		No Answer		TOTAL	
	Freq	%	Freq	%	Freq	%	Freq	%
Determining the auditing risk, defining materiality limits	14	16.7	26	31.0	44	52.4	84	100.0
FIELDWORK PLANNING:								
Establishing the nature, extension, deepness and opportunity for the procedures to be adopted	14	16.7	25	29.8	45	53.6	84	100.0
Careful selection of samples over which the auditing procedures are going to be applied	17	20.2	22	26.2	45	53.6	84	100.0
Identifying individuals and companies the municipality has relationship with	19	22.6	21	25.0	44	52.4	84	100.0
FIELDWORK DEVELOPMENT:								
Auditor adequate coordination in case of resorting to assistant professionals	12	14.3	25	29.8	47	56.0	84	100.0
Inspections, observations, verifications and comparisons	16	19.0	23	27.4	45	53.6	84	100.0
Substantive, trajectory and conformity tests	14	16.7	24	28.6	46	54.8	84	100.0
Calculations and other analytical procedures	16	19.0	22	26.2	46	54.8	84	100.0
Asking the Executive to declare their responsibility on the accounts, ICS maintenance and information presented for auditing'	7	8.3	31	36.9	46	54.8	84	100.0
Considering significant facts, favourable or unfavourable, happened after the financial statements closing date	13	15.5	24	28.6	47	56.0	84	100.0
Considering The Court of Account's opinion regarding the municipality's accounts	20	23.8	17	20.2	47	56.0	84	100.0

continuación

	Yes		No		No Answer		TOTAL	
	Freq	%	Freq	%	Freq	%	Freq	%
REPORTING STANDARDS AND PRACTICES:								
Final statement is the auditor clear and summarised opinion	18	21.4	22	26.2	44	52.4	84	100.0
In special cases, the nature and object of the auditing work is identified	17	20.2	22	26.2	45	53.6	84	100.0
In the auditing report or simplified exam there is a description of the responsibilities of the Executive, of the auditor him/herself and of the scope of the work developed	13	15.5	23	27.4	48	57.1	84	100.0
Complementary information is presented	13	15.5	22	26.2	49	58.3	84	100.0
The opinion is expressed in a positive way in the cases the auditing leads to the accounts legal certification	12	14.3	22	26.2	50	59.5	84	100.0
The opinion is expressed in a negative way in the cases of simplified exams	5	6.0	25	29.8	54	64.3	84	100.0
The auditor expressly declares the reasons that did not allow to issue a final opinion statement	12	14.3	23	27.4	49	58.3	84	100.0

Table 10
Internal Auditing Standards and Practices – Importance level

	Importance Level												No Answer		TOTAL	
	NI		LI		I		SI		VI		F	%	F	%		
	F	%	F	%	F	%	F	%	F	%						
GENERAL STANDARDS AND PRACTICES:																
Independence between the internal auditor and his/her hierarchic superior	0	0	1	1.2	6	7.1	6	7.1	33	39.3	38	45.2	84	100		
Professional external to the municipality – written agreement about the work to be developed	2	2.4	1	1.2	3	3.6	11	13.1	27	32.1	40	47.6	84	100		
The internal auditor resorting to external experts	3	3.6	2	2.4	8	9.5	15	17.9	17	20.2	39	46.4	84	100		
FIELDWORK PREPARATION:																
Critically collecting and appreciating significant facts	1	1.2	0	0	4	4.8	18	21.4	26	31.0	35	41.7	84	100		
Critical appreciation of both the accounting and the internal control systems	1	1.2	0	0	3	3.6	18	21.4	26	31.0	36	42.9	84	100		
Analysis of the internal factors conditioning the municipality activity	0	0	0	0	4	4.8	20	23.8	25	29.8	35	41.7	84	100		
Analysis of the external factors conditioning the municipality activity	0	0	1	1.2	5	6.0	21	25.0	21	25.0	36	42.9	84	100		
Analysis of the Executive's activities report of the year	0	0	1	1.2	6	7.1	17	20.2	22	26.2	38	45.2	84	100		
Assessing the way computing information systems affect auditing	1	1.2	0	0	3	3.6	22	26.2	21	25.0	37	44.0	84	100		
Determining the auditing risk, defining materiality limits	2	2.4	2	2.4	5	6.0	16	19.0	20	23.8	39	46.4	84	100		

continuación

	Importance Level												No Answer		TOTAL				
	NI			LI			I			SI			VI		F	%	F	%	
	F	%		F	%		F	%		F	%		F	%					
FIELDWORK PLANNING:																			
0	0	3	3.6	6	7.1	16	19.0	22	26.2	37	44.0	84	100						
1	1.2	0	0	5	6.0	15	17.9	26	31.0	37	44.0	84	100						
0	0	1	1.2	12	14.3	17	20.2	17	20.2	37	44.0	84	100						
FIELDWORK DEVELOPMENT:																			
2	2.4	0	0	7	8.3	15	17.9	21	25.0	39	46.4	84	100						
1	1.2	0	0	4	4.8	18	21.4	24	28.6	37	44.0	84	100						
2	2.4	0	0	4	4.8	17	20.2	21	25.0	40	47.6	84	100						
2	2.4	0	0	4	4.8	16	19.0	25	29.8	37	44.0	84	100						
3	3.6	1	1.2	9	10.7	16	19.0	18	21.4	37	44.0	84	100						
2	2.4	0	0	9	10.7	17	20.2	18	21.4	38	45.2	84	100						
0	0	1	1.2	2	2.4	11	13.1	32	38.1	38	45.2	84	100						

continuación

	Importance Level												No Answer		TOTAL
	NI		LI		I		SI		VI		F	%	F	%	
	F	%	F	%	F	%	F	%	F	%					
REPORTING STANDARDS AND PRACTICES:															
Final statement is the auditor clear and summarised opinion	1	1.2	0	0	5	6.0	14	16.7	28	33.3	36	42.9	84	100	
In special cases, the nature and object of the auditing work is identified	0	0	2	2.4	10	11.9	17	20.2	16	19.0	39	46.4	84	100	
In the auditing report or simplified exam there is a description of the responsibilities of the Executive, of the auditor him/herself and of the scope of the work developed	0	0	1	1.2	7	8.3	13	15.5	24	28.6	39	46.4	84	100	
Complementary information is presented	0	0	3	3.6	9	10.7	16	19.0	15	17.9	41	48.8	84	100	
The opinion is expressed in a positive way in the cases the auditing leads to the accounts legal certification	1	1.2	1	1.2	8	9.5	14	16.7	21	25.0	39	46.4	84	100	
The opinion is expressed in a negative way in the cases of simplified exams	1	1.2	3	3.6	9	10.7	10	11.9	15	17.9	46	54.8	84	100	
The auditor expressly declares the reasons that did not allow to issue a final opinion statement	1	1.2	2	2.4	5	6.0	13	15.5	24	28.6	39	46.4	84	100	

Legend: NI – Nothing Important; LI – Low Importance; I – Indifferent; SI – Some Importance; VI – Very Important.

Table 11
General Characteristics of the Internal Auditing Standards and Procedures

	Yes		No		No Answer		TOTAL	
	Freq	%	Freq	%	Freq	%	Freq	%
Optimising public resources management	31	36.9	11	13.1	42	50.0	84	100.0
Assuring operational efficiency and effectiveness	32	38.1	9	10.7	43	51.2	84	100.0
Assuring trust in accounting records and statements	33	39.3	8	9.5	43	51.2	84	100.0
Promoting improvements both in processes and operations	31	36.9	9	10.7	44	52.4	84	100.0
Accomplishing with legality	34	40.5	8	9.5	42	50.0	84	100.0
Assessing and improving effectiveness in the risk management control processes	30	35.7	10	11.9	44	52.4	84	100.0
Possibility of the auditor developing a systematic evaluation of situations	30	35.7	10	11.9	44	52.4	84	100.0
Possibility of the auditor measuring according to the identified criteria	28	33.3	12	14.3	44	52.4	84	100.0
Applying adequate analytical procedures	26	31.0	14	16.7	44	52.4	84	100.0
Expressing a conclusion	30	35.7	11	13.1	43	51.2	84	100.0
Auditing report might include recommendations for practice	27	32.1	13	15.5	44	52.4	84	100.0
Auditing report communicates the detected irregularities to the competent bodies	25	29.8	13	15.5	46	54.8	84	100.0
From the auditing report sanctions might come to be applied to the competent bodies	21	25.0	17	20.2	46	54.8	84	100.0

Table 12
General Characteristics of the Internal Auditing Standards and Procedures – Importance Level

	Importance Level										No Answer		TOTAL	
	NI		LI		I		SI		VI		F	%	F	%
	F	%	F	%	F	%	F	%	F	%	F	%	F	%
Optimising public resources management	0	0	0	0	4	4.8	9	10.7	37	44.0	0	0	84	100
Assuring operational efficiency and effectiveness	0	0	0	0	3	3.6	9	10.7	37	44.0	35	41.7	84	100
Assuring trust in accounting records and statements	0	0	0	0	3	3.6	5	6.0	41	48.8	35	41.7	84	100
Promoting improvements both in processes and operations	0	0	0	0	3	3.6	8	9.5	37	44.0	36	42.9	84	100
Accomplishing with legality	0	0	0	0	5	6.0	5	6.0	40	47.6	34	40.5	84	100
Assessing and improving effectiveness in the risk management control processes	0	0	0	0	4	4.8	13	15.5	32	38.1	35	41.7	84	100
Possibility of the auditor developing a systematic evaluation of situations	0	0	1	1.2	4	4.8	23	27.4	21	25.0	35	41.7	84	100

continuação

	Importance Level												No Answer		TOTAL			
	NI			LI			I			SI			VI		F	%	F	%
	F	%		F	%		F	%		F	%		F	%				
Possibility of the auditor measuring according to the identified criteria	0	0	1	1.2	7	8.3	21	25.0	18	21.4	37	44.0	84	100				
Applying adequate analytical procedures	0	0	1	1.2	5	6.0	19	22.6	21	25.0	38	45.2	84	100				
Expressing a conclusion	0	0	1	1.2	2	2.4	14	16.7	33	39.3	34	40.5	84	100				
Auditing report might include recommendations for practice	0	0	1	1.2	4	4.8	12	14.3	31	36.9	36	42.9	84	100				
Auditing report communicates the detected irregularities to the competent bodies	0	0	1	1.2	5	6.0	7	8.3	33	39.3	38	45.2	84	100				
From the auditing report sanctions might come to be applied to the competent bodies	2	2.4	2	2.4	5	6.0	19	22.6	18	21.4	38	45.2	84	100				

Table 13
Issues object of Internal Auditing in each municipality

	Yes		No		No Answer		TOTAL	
	Freq	%	Freq	%	Freq	%	Freq	%
BUDGETARY ACCOUNTING:								
Preparing the budget – budgetary principles and rules application	30	35.7	19	22.6	35	41.7	84	100.0
Applying budget preparation rules	31	36.9	18	21.4	35	41.7	84	100.0
Budgetary revisions and alterations	31	36.9	18	21.4	35	41.7	84	100.0
Annual execution of the Multi-annual Investment Plan	28	33.3	20	23.8	36	42.9	84	100.0
Budgetary Execution – procedures to collect revenue	33	39.3	15	17.9	36	42.9	84	100.0
Budgetary Execution – procedures to accomplish with expenditure	32	38.1	16	19.0	36	42.9	84	100.0
Budgetary Execution – Budgetary Control Statements	30	35.7	17	20.2	37	44.0	84	100.0
Cash Flow Statement	31	36.9	15	17.9	38	45.2	84	100.0
Other	2	2.4	2	2.4	80	95.2	84	100.0
FINANCIAL ACCOUNTING:								
GAAP's accomplishment	31	36.9	16	19.0	37	44.0	84	100.0
Application of the measurement criteria in general	31	36.9	16	19.0	37	44.0	84	100.0
Application of the specific measurement criteria to Public Domain Assets (PDAs)	27	32.1	19	22.6	38	45.2	84	100.0
PDAs and respective depreciations	31	36.9	17	20.2	36	42.9	84	100.0

continuación

	Yes		No		No Answer		TOTAL	
	Freq	%	Freq	%	Freq	%	Freq	%
Classification of debts and receivables as long and short term	33	39.3	15	17.9	36	42.9	84	100.0
Capital shares in other (public/private) entities	32	38.1	15	17.9	37	44.0	84	100.0
Accrual principle application – to investment grants	32	38.1	15	17.9	37	44.0	84	100.0
Annual depreciations and provisions	31	36.9	16	19.0	37	44.0	84	100.0
Accrual principle application	32	38.1	15	17.9	37	44.0	84	100.0
Extraordinary results	30	35.7	17	20.2	37	44.0	84	100.0
Notes to the Balance Sheet and Operating Statement	30	35.7	16	19.0	38	45.2	84	100.0
Other	1	1.2	2	2.4	81	96.4	84	100.0
COST ACCOUNTING:								
Allocation of direct costs to functions, goods and services	11	13.1	31	36.9	42	50.0	84	100.0
Allocation of indirect costs to functions, goods and services	9	10.7	33	39.3	42	50.0	84	100.0
Calculation of the functions, goods and services total cost	8	9.5	34	40.5	42	50.0	84	100.0
Contents and articulation between several cost cards	6	7.1	36	42.9	42	50.0	84	100.0
Other	0	0.0	5	6.0	79	94.0	84	100.0
INTERNAL CONTROL SYSTEM:								
Adequacy of the ICS features to the municipality's activities	34	40.5	13	15.5	37	44.0	84	100.0
Internal Control Norm (ICN)	40	47.6	11	13.1	33	39.3	84	100.0

continuación

	Yes		No		No Answer		TOTAL	
	Freq	%	Freq	%	Freq	%	Freq	%
Control organising plan, policies, methods and procedures	35	41.7	15	17.9	34	40.5	84	100.0
Internal regulations	35	41.7	15	17.9	34	40.5	84	100.0
Accounts plan	30	35.7	19	22.6	35	41.7	84	100.0
Other Manuals of Procedures	22	26.2	20	23.8	42	50.0	84	100.0
Definition of control functions	34	40.5	15	17.9	35	41.7	84	100.0
Characteristics of the written documents that are included in the internal administrative processes	35	41.7	15	17.9	34	40.5	84	100.0
Procedures compliance with laws and regulations	38	45.2	12	14.3	34	40.5	84	100.0
Accomplishing with the deliberations of bodies and their members	36	42.9	11	13.1	37	44.0	84	100.0
Eventual redundancy	29	34.5	21	25.0	34	40.5	84	100.0
Reliability of the information being prepared	37	44.0	13	15.5	34	40.5	84	100.0
Adequate use of municipal funds	35	41.7	12	14.3	37	44.0	84	100.0
Accomplishing with ICN requirements for Cash and Deposits	40	47.6	10	11.9	34	40.5	84	100.0
Accomplishing with ICN requirements for Debts and Receivables	39	46.4	11	13.1	34	40.5	84	100.0
Accomplishing with ICN requirements for Inventories	37	44.0	13	15.5	34	40.5	84	100.0
Accomplishing with ICN requirements for Fixed Assets	36	42.9	13	15.5	35	41.7	84	100.0

Table 14
Issues object of Internal Auditing in each municipality – Importance Level

	Importance Level												No Answer		TOTAL		
	NI		LI		I		SI		VI		F	%	F	%	F	%	
	F	%	F	%	F	%	F	%	F	%							
BUDGETARY ACCOUNTING:																	
Preparing the budget – budgetary principles and rules application	0	0.0	3	3.6	4	4.8	10	11.9	30	35.7	37	44.0	84	100.0			
Applying budget preparation rules	0	0.0	3	3.6	1	1.2	6	7.1	37	44.0	37	44.0	84	100.0			
Budgetary revisions and alterations	0	0.0	3	3.6	2	2.4	12	14.3	31	36.9	36	42.9	84	100.0			
Annual execution of the Multi-annual Investment Plan	0	0.0	2	2.4	3	3.6	13	15.5	28	33.3	38	45.2	84	100.0			
Budgetary Execution – procedures to collect revenue	0	0.0	1	1.2	4	4.8	10	11.9	33	39.3	36	42.9	84	100.0			
Budgetary Execution – procedures to accomplish with expenditure	0	0.0	1	1.2	2	2.4	9	10.7	34	40.5	38	45.2	84	100.0			
Budgetary Execution – Budgetary Control Statements	0	0.0	1	1.2	4	4.8	14	16.7	27	32.1	38	45.2	84	100.0			
Cash Flow Statement	0	0.0	0	0.0	4	4.8	15	17.9	27	32.1	38	45.2	84	100.0			
Other	0	0.0	0	0.0	6	7.1	3	3.6	5	6.0	76	90.5	84	100.0			
FINANCIAL ACCOUNTING:																	
GAAPs accomplishment	0	0.0	0	0.0	5	6.0	11	13.1	28	33.3	40	47.6	84	100.0			
Application of the measurement criteria in general	0	0.0	0	0.0	0	0.0	10	11.9	27	32.1	41	48.8	84	100.0			
Application of the specific measurement criteria to Public Domain Assets (PDAs)	0	0.0	0	0.0	6	7.1	12	14.3	28	33.3	38	45.2	84	100.0			
PDAs and respective depreciations	0	0.0	0	0.0	7	8.3	8	9.5	29	34.5	40	47.6	84	100.0			

continuación

	Importance Level												No Answer		TOTAL	
	NI		LI		I		SI		VI		F	%	F	%	F	%
	F	%	F	%	F	%	F	%	F	%						
Classification of debts and receivables as long and short term	0	0.0	0	0.0	7	8.3	8	9.5	32	38.1	37	44.0	84	100.0		
Capital shares in other (public/private) entities	0	0.0	1	1.2	4	4.8	11	13.1	29	34.5	39	46.4	84	100.0		
Accrual principle application – to investment grants	1	1.2	1	1.2	4	4.8	9	10.7	32	38.1	37	44.0	84	100.0		
Annual depreciations and provisions	0	0.0	0	0.0	5	6.0	10	11.9	32	38.1	37	44.0	84	100.0		
Accrual principle application	0	0.0	1	1.2	4	4.8	11	13.1	31	36.9	37	44.0	84	100.0		
Extraordinary results	0	0.0	1	1.2	5	6.0	12	14.3	29	34.5	37	44.0	84	100.0		
Notes to the Balance Sheet and Operating Statement	1	1.2	0	0.0	6	7.1	8	9.5	31	36.9	38	45.2	84	100.0		
Other	0	0.0	0	0.0	0	0.0	0	0.0	5	6.0	79	94.0	84	100.0		
COST ACCOUNTING:																
Allocation of direct costs to functions, goods and services	1	1.2	1	1.2	3	3.6	9	10.7	28	33.3	42	50.0	84	100.0		
Allocation of indirect costs to functions, goods and services	1	1.2	1	1.2	3	3.6	9	10.7	28	33.3	42	50.0	84	100.0		
Calculation of the functions, goods and services total cost	2	2.4	1	1.2	2	2.4	7	8.3	31	36.9	41	48.8	84	100.0		
Contents and articulation between several cost cards	1	1.2	1	1.2	3	3.6	9	10.7	28	33.3	42	50.0	84	100.0		
Other	1	1.2	0	0.0	0	0.0	0	0.0	4	4.8	79	94.0	84	100.0		
INTERNAL CONTROL SYSTEM:																
Adequacy of the ICS features to the municipality's activities	0	0.0	0	0.0	1	1.2	6	7.1	38	45.2	39	46.4	84	100.0		

continuación

	Importance Level												No Answer		TOTAL	
	NI		LI		I		SI		VI		F	%	F	%	F	%
	F	%	F	%	F	%	F	%	F	%						
	0	0.0	0	0.0	1	1.2	10	11.9	37	44.0	36	42.9	84	100.0		
Internal Control Norm (ICN)	0	0.0	0	0.0	2	2.4	11	13.1	35	41.7	36	42.9	84	100.0		
Control organising plan, policies, methods and procedures	0	0.0	0	0.0	3	3.6	9	10.7	35	41.7	37	44.0	84	100.0		
Internal regulations	0	0.0	1	1.2	3	3.6	10	11.9	33	39.3	37	44.0	84	100.0		
Accounts plan	0	0.0	1	1.2	4	4.8	13	15.5	24	28.6	42	50.0	84	100.0		
Other Manuals of Procedures	0	0.0	0	0.0	2	2.4	16	19.0	29	34.5	37	44.0	84	100.0		
Definition of control functions	0	0.0	0	0.0	3	3.6	12	14.3	31	36.9	38	45.2	84	100.0		
Characteristics of the written documents that are included in the internal administrative processes	0	0.0	0	0.0	2	2.4	7	8.3	37	44.0	38	45.2	84	100.0		
Procedures compliance with laws and regulations	0	0.0	0	0.0	3	3.6	12	14.3	30	35.7	39	45.4	84	100.0		
Accomplishing with the deliberations of bodies and their members	1	1.2	0	0.0	7	8.3	14	16.7	23	27.4	39	46.4	84	100.0		
Eventual redundancy	0	0.0	0	0.0	3	3.6	11	13.1	31	36.9	39	46.4	84	100.0		
Reliability of the information being prepared	0	0.0	0	0.0	1	1.2	5	6.0	39	46.4	39	46.4	84	100.0		
Adequate use of municipal funds	0	0.0	0	0.0	3	3.6	6	7.1	37	44.0	38	45.2	84	100.0		
Accomplishing with ICN requirements for Cash and Deposits	0	0.0	0	0.0	3	3.6	6	7.1	37	44.0	38	45.2	84	100.0		
Accomplishing with ICN requirements for Debts and Receivables	0	0.0	0	0.0	3	3.6	6	7.1	37	44.0	38	45.2	84	100.0		
Accomplishing with ICN requirements for Inventories	0	0.0	0	0.0	3	3.6	7	8.3	36	42.9	38	45.2	84	100.0		
Accomplishing with ICN requirements for Fixed Assets	0	0.0	0	0.0	3	3.6	9	10.7	32	38.1	40	47.6	84	100.0		

