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INTERNAL AUDIT AND MANAGEMENT CONTROL IN UNITS OF THE PUBLIC FINANCE SECTOR

Summary:

The process of managing institutions of the public finance sector should be subject to improvement and therefore should also be subject to ongoing control and periodic comprehensive audits. In units of the public finance sector, given the need of improving the efficiency of public tasks implementation, a significant role is played by management control, understood as overall measures taken to ensure the implementation of objectives and tasks in a legitimate, effective, economical and timely manner. A particularly important element of the management control system is the internal audit, i.e. an independent advisory and verification activity, the objective of which is to improve the operational efficiency of the organization and to bring added value to it. Technical progress, changing legal regulations and organizational forms of business entities and institutions of the government administration sector enforce constant adjustments of procedures for control processes and auditing activities. Procedures for conducting internal audit processes should be subject to permanent improvement, because in this way the quality of service of public sector institutions towards the society and the effectiveness of the state functions are improved.

Keywords: internal audit, management control, public administration, public sector, state administration institutions, public finance institutions, government administration bodies, e-government, risk management, improvement of procedures.

AUDYT WEWNĘTRZNY I KONTROLA ZARZĄDZA W JEDNOSTKACH SEKTORA FINANSÓW PUBLICZNYCH

Streszczenie:

Proces zarządzania instytucjami sektora finansów publicznych powinien podlegać doskonaleniu i w związku z tym powinien także podlegać bieżącej kontroli i przeprowadzanym okresowo kompleksowym audytom. W jednostkach sektora finansów publicznych istotną rolę, z uwagi na potrzebę poprawy efektywności realizacji zadań publicznych, odgrywa kontrola zarządcza, rozumiana jako ogół działań podejmowanych dla zapewnienia realizacji celów i zadań w sposób zgodny z prawem, efektywny, oszczędny i terminowy. Szczególnie istotnym elementem systemu kontroli zarządczej jest audyt wewnętrzny, tj. niezależna działalność doradcza i weryfikująca, której celem jest usprawnienie operacyjne organizacji i wniesienie do niej wartości dodanej. Postęp techniczny, zmieniające się regulacje prawne i formy organizacyjne podmiotów gospodarczych i instytucji sektora administracji rządowej wymuszają ciągle dostosowywanie procedur procesów kontroli i działalności audytorskiej. Procedury przeprowadzania procesów audytu wewnętrznego powinny podlegać permanentnemu doskonaleniu, ponieważ w ten sposób podnoszona jest jakość służby instytucji sektora publicznego względem społeczeństwa i efektywność realizacji funkcji państwa.

Słowa kluczowe: audyt wewnętrzny, kontrola zarządcza, administracja publiczna, sektor publiczny, instytucje administracji państwowej, instytucje finansów publicznych, organy administracji rządowej, e-government, zarządzanie ryzykiem, doskonalenie procedur.

JEL codes: D81, G18, G38, H20, H50, H70, H79, J28, K49, P43.

1. Introduction

The management process of each organization, including a commercially operating economic entity and an institution of the public system, which include public finance sector entities, should take into account current and strategic development goals. The process that involves managing public finance sector institutions should be improved and therefore should also be subject to ongoing control and periodic comprehensive audits. The management of public finance sector institutions can be studied in the context of the art of choosing and searching for optimal solutions to ensure the achievement of the set goals and tasks while respecting the application of the adopted procedures and rules of conduct. This process is a kind of interaction between fixed elements of the management system - designing, organizing, implementing, monitoring and evaluation of the final product, i.e. the achieved organizational management goals [36]

When implementing specific strategic development goals, fundamental criteria should be followed, such as legality, efficiency, economy and timeliness. The head of the unit plays a special role as the person fully responsible for the implementation and operation of a comprehensive management system. Effective and efficient operation of this system also requires the involvement of middle mana-

gement personnel, as well as all other persons involved in the implementation of tasks. The basis for the activities of a controller and an internal auditor in organizational units of government administration bodies is provided by the Act of 15 July 2011 on control in government administration [41]. This act defines rules and procedures for inspecting the activities of government administration bodies, offices supporting them or serving as their auxiliary apparatus and organizational units subordinate to these bodies or supervised by them. Conducting an inspection pursuant to the Act is aimed at assessing the activity of the inspected entity made on the basis of the established actual state, using the adopted inspection criteria. If any irregularities are found, the purpose of the inspection is also to determine their scope, causes and effects and the persons responsible for them, as well as to formulate recommendations aimed at removing these irregularities. Reliable performance of internal audit and management control in public finance sector units allows diagnosing emerging symptoms of a crisis or irregularities in the functioning of a specific public institution. In this way, the likelihood of a financial crisis in the organization can be avoided or significantly reduced.

In public finance sector units, given the need of improving the effectiveness of public tasks implementation, an important role is played by management control, understood as all activities intended to ensure the implementation of goals and tasks in a lawful, effective, economical and timely manner. A particularly important element of the management control system is the internal audit, i.e. independent advisory and verification activities aimed at enhancing the operational improvement of the organization and bringing added value to it. The rank of the internal audit significantly increased after the amendment to the Public Finance Act in 2009, as on the basis of the provisions comprised by this Act, internal audit mainly concerns the functioning of the management control system, and not, as previously, financial control, identified mainly with the purely financial aspect of the entity's operations.

The verification process that analyses the functioning of internal control in ministries and other government administration units from 2003 pointed to the lack of effective control procedures, excessive period of implementation of post-control recommendations, failure to develop control tasks for implementation (lack of control plans and schedules) and delays in the implementation of control tasks. Potential failure of internal control systems was also diversified, which meant that these systems did not operate continuously, coherently and effectively in all units [15].

On the basis of the above-mentioned regulations, the adopted management control system, based on international standards, was intended to ensure enhancing of the quality and effectiveness of management in public administration units. The created management control system focused in many units mainly on formal aspects, and the information generated in this system was not used for day-to-

-day management. Extensive requirements for submitting annual statements on the state of management control by unit managers and extensive self-assessment documentation led to bureaucracy in the entire process and, as a result, often to its reduced effectiveness [45]. The success of the management control operation is largely determined by the internal assessment of its effectiveness - expressed by the participants of the management control system themselves. This is a special type of risk identification. Self-assessment is particularly important in those units where there is no legal obligation to conduct internal audits. The key segment of management control is an independent and objective internal audit, which is intended to support the head of the unit in achieving goals and tasks through systematic evaluation of this system and consulting activities [34].

2. The genesis and historical outline of internal audit

The term audit is derived from the Latin *audire* - to listen, consider or “auditor”, i.e. a listener. The origin of the word “audit” is related to the old presentation of accounts of a given organization by reading them in public in a loud voice. It comes from the times of ancient Rome and literally meant “listener of accounts”, as opposed to *quaestors*, that is, someone who studies [1].

The audit has a long history as it was carried out in antiquity. The history of the internal audit activity goes back thousands of years before our era. However, auditing has changed significantly since antiquity. The first “auditing” activities, in the form of markings confirming the verification of records on papyri, were found on documents from the Mesopotamian period, around 3500 BC. They have small characters next to the transaction amounts. Egyptian, Chinese, and Jewish records from this period confirm the existence of similar systems.

Similar traces of auditing activities were also found on documents of other ancient civilizations, in particular the countries of Southern Europe and North Africa. This early form of audit was limited only to checking the correctness of “accounting” entries, and the role of the auditors was primarily to identify fraud attempts and eliminate mistakes. In Ancient Rome, an audit had the form of the so-called “Bill questioning”. One official compared his documents with those of the other official. Such verification was meant to prevent fund embezzlement by people responsible for the funds. The word audit comes from the aforementioned “auditing of accounts” (Latin *Auditus* - interrogation).

In the 13th century, audit also played a particularly important role. In Italy, trade required very detailed transaction records. The concept of audit is related to the open presentation of accounts of a given organization by reading them in public in a loud voice. Until the 15th century, audit as a discipline mainly concerned the verification of financial transactions and settlements implemented by

authorities, state officials and their families' finances. In the Middle Ages, the Renaissance and in the following eras, the primary purpose of the audit was to verify the honesty of officials operating in the fiscal system, such as tax collectors. On the other hand, the process of financial verification referred to as internal audit began to develop during the industrial revolution in England. The manufactories, service plants and the first industrial enterprises that were operating at that time hired accountants to control their financial documents. It was more than the so-called "hearing". Instead of verbal verification, the audit consisted in controlling the compliance of entries in the accounting books with the source documentation [3].

Table 1. The process of the evolution of internal audit in a historical perspective

| Period | Purpose of internal audit |
|-------------------|---|
| 12th-14th century | Reading accounts publicly and giving feedback on accounts |
| 1494-1850 | Fraud detection |
| 1850-1905 | Fraud detection, error detection |
| 1905-1933 | Issuing opinions on the validity of financial statements, detecting frauds and errors. |
| 1940-1990 | Issuing opinions on the truthfulness and regularity of financial statements |
| 1998- Nowadays | Issuing opinions on the truthfulness of annual financial statements, verification of the internal control system, prevention of fraud and errors. |

Source: D. Ampuła, *Kontrola i Audyt wewnętrzny w jednostce organizacyjnej*, Wojskowy Instytut Techniczny Uzbrojenia, Issue 132, No. 4/2014.

Contemporary internal audit began to take shape in 1941, when the Institute of Internal Auditors was established in the United States. Internal auditors then expanded their activities to assess all aspects of the organization's activities and gained an equal position with external auditors. The modern internal auditor tries not only to detect fraud and audit the entity's financial documents, but also determines answers to the question of whether the entity's action plans have been implemented economically, effectively and efficiently [35].

Internal audit, which began to develop as of the mid-twentieth century, is characterized by the fact that it is conducted independently of the audited company and other entities related to it. Conducted in this way it is a verification process that ensures the provision of objective and advisory information that can be used for the management of the organization. Information from internal audit used by management bodies and managers can significantly contribute to the improvement of operations and strategic decision-making. Such audit helps the organiza-

tion achieve its goals through a systematic and reliable approach to assessing and improving the effectiveness of risk management processes, control activities and corporate governance principles.

3. Objectives and functions of conducting internal audit in units of the public finance sector

Modern internal audit derives directly from the external audit, the main task of which was primarily the verification of financial books, accounts and financial reports while maintaining the maximum possible objectivity. The following features are of key importance for a modern internal audit:

- a) independence - ensured mainly by the direct reporting of the auditor to the top management of the organization and the lack of responsibility of the audit for the day-to-day operations of the institution;
- b) objectivity - impartial, independent assessment of the situation in the audited area by auditors,
- c) generating additional management information as an added value of the institution - even the most independent and objective audit, which will not generate information as an added value and will not be able to contribute to improving the operation of its institution with its activities, will be useless from its point of view. According to the current internal audit terminology, the following concepts are in place:
 1. Services that ensure that an objective examination of evidence is provided to assure an independent assessment of an organization's risk management, control and governance processes.
 2. Advisory services relate to the scope of internal audit services beyond the assurance services that the internal auditor may provide to assist management in achieving its objectives.
 3. Risk is defined as the uncertainty related to the occurrence of events that may affect the achievement of the intended goals.
 4. Control is any action taken by management, authorities or other entities to improve risk management and increase the probability of achieving the established objectives and tasks.
 5. Governance [23] are procedures used by representatives of groups associated with an organization (for example, shareholders) to oversee risk management and management's control processes.

One of the first definitions of internal audit was developed by L. B. Sawyer. According to this definition, "modern internal audit derives from good accounting skills, transformed into a management-oriented profession." Sawyer adds that

currently internal audit provides services that primarily include analytical processes and evaluation of both the control and the overall activity of both public and private entities [30].

According to one of the most important authorities in Germany in the field of internal audit, W. Lucek: “internal audit is an independent activity, checking and evaluating structures and activities within the enterprise” [24]. In addition, Luck points out that the internal audit also plays the role of an independent institution that carries out control processes within a given entity, including analyzes, assessments and studies of the entity’s operations. Based on the research, as part of the control processes, recommendations and guidelines are formulated, i.e. key information for managers managing specific departments of the organization.

On the basis of the normative content contained in Article 35c of the Public Finance Act, the control process defined by the internal audit consists of activities based on which the head of the entity or the manager managing a specific division of the entity’s activities should obtain an objective and independent assessment of activities in a given organization in the field of financial management, taking into account the issues of legality, purposefulness, reliability, transparency, openness and economic efficiency [42].

The definition of internal audit contained in the Public Finance Act shows that, on the basis of the conducted audit, the head of the unit obtains an assessment of financial management, taking into account, inter alia, such features as legality, reliability, transparency as well as economic and financial efficiency.

According to Kubik, the above-mentioned features of the effects of the audit are defined as follows [22]:

- a) legality means compliance with the law;
- b) economy includes the examination of the effectiveness of funds use; the economic criterion relates to the evaluation of the optimal disposal of financial and material resources and optimization of organizational measures applied in the course of the activity during the audit task;
- c) purposefulness concerns ensuring the compliance of the audited entity’s operations with the objectives set for it;
- d) reliability means diligence; assessing reliability allows the examination of the performance of entrusted tasks, compliance with the internal operating procedures of a given unit and documenting of specific activities;
- e) transparency is combined with honesty and openness; transparency means establishing the responsibility of people who have public resources, and the ease of noticing mismanagement.

Local government units are public institutions in which the performance of internal audit and management control is of particular importance. The high level of significance results from the need to control the correct implementation of

socio-economic and statutory functions in local government units, including the regularity of financing certain types of statutory business ventures, cultural activities and promotion of the local government unit [9, 29]

4. Objectives and functions of management control in units of the public finance sector

Since the 1990s, management control has been one of the most problematic areas in the functioning of central and local government administration in Poland. Management control comprises a set of rules, procedures, methods, mechanisms and instructions intended to support the process of managing an organization. In essence, this control consists in transforming the culture of applying the law into a culture of achieving results. Management control does not only relate to the sphere of finance, but is also carried out in such a way that managers of public administration units change their approach and management from ad hoc administration focused on procedures to long-term, strategic planning [4]. Management control should not be a one-off activity. Instead, it should be a process of regularly repeated verification activities. The results of management control carried out should be presented in a report containing information useful in the process of managing the organization. The most important features that characterise control are as follows:

- a) the permanence of its conduct, i.e. a process of a cyclical nature in a given unit as opposed to one-time internal or external controls,
- b) flexibility, consisting in adjusting the type of control processes to the specifics of the activity of a given type of office, public sector institution or a commercially operating enterprise.

Control gives a genuine opportunity to improve the functioning of the unit in connection with its introduction; therefore management control should not be treated as an unnecessary activity.

In units of the state institutions sector, management control is carried out almost from the moment these entities have been established for operation. The management staff operating in accordance with relevant procedures should plan the key strategic and operational goals of the organisation's activities [33]. As part of the management, the managerial staff assesses risks and introduces mechanisms to prevent the occurrence of such risks. Research shows that many mistakes were made during the introduction of management control mechanisms in Poland. The scheme of introducing statutory requirements and then considering whether someone will know "how to do it" is a phenomenon also known from other areas of operation of various organizations. As a result, persons dealing with the protection of personal data were given new tasks and obligations. The heads of central and local government administration units found out that they were obliged to

perform additional administrative work. They were obliged to fill in additional forms and devise new documentation [10, 11, 9, 14]

Rulers also noticed the need for control back in the distant past when they appointed censors or auditors, aware of the fact that control activities were an attribute of power. In the initial period of control development, the verification processes were mainly related to the security of the state and state funds. Such an approach was also adopted in Poland in the initial period of historical development of control processes. The first resolution establishing the right to control the income and spending of state funds was adopted by land envoys at the Piotrkowski Sejm in 1562. Then, in later eras, the following central state control institutions were established in Poland:

- a) the Main Audit Chamber (1808-1815),
- b) the Accounts Chamber (1816-1821),
- c) the Supreme Audit Chamber (1821-1866),
- d) the Accounts Office (1917-1919),
- e) the Supreme Chamber of State Control (1919-1921),
- f) the Supreme Chamber of Control (1921-1945),
- g) the Control Office (1945-1949),
- h) the Supreme Audit Office (1949-1952),
- i) the Ministry of State Control (1952-1957),
- j) the Supreme Audit Office (from 1957).

The essence of control processes is to force an organization to properly apply procedures and conduct its activities in accordance with the applicable legal regulations. In this way, the subject under control operates within the specified framework of legal norms and adopted norms, standards and principles of proper conduct for a given activity. Without periodic inspections of the conducted activity, the organization would not be able to assess the results achieved thanks to the implementation of adopted goals and plans. Due to the constantly changing conditions of business entities and the technologies used in their activities, the structure and forms of organization of enterprises and public institutions keep constantly evolving, so the control processes should also be gradually adapted to the changing conditions of functioning and organization of entities.

Pursuant to Article 68 section 2 of the Public Finance Act, the purpose of management control is to ensure [42]:

- a) compliance with the law and internal procedures,
- b) effectiveness and efficiency of operation,
- c) credibility of reports,
- d) resource protection,
- e) adherence to and promotion of principles of ethical conduct,
- f) efficiency and effectiveness of information flow,
- g) risk management.

It is now widely accepted that control is an essential element of management. Most organizations classify their audit domains into four basic types of resources used: physical, human, information and financial.

Material inventory control includes inventory management, service quality control and product equipment inspection, including machinery and equipment. The tasks of controlling information resources include sales and marketing forecasting, analysis of the organization's environment, public relations, preparing production schedules and preparing economic forecasts. Human resources control comprises activities in the field of employee selection and job placement, training and development of managerial staff, performance evaluation and remuneration levels. Financial control concerns the verification of the debt status in an organization [40]. Financial control should serve as an auxiliary instrument in managing the debt of an economic entity. This management should be carried out in such a way that the level of debt does not generate high liquidity, investment, etc. risks. Financial control should help maintain high financial liquidity of the enterprise and public sector institution. The state of high liquidity means that the organization has the necessary cash resources to cover both its current and long-term liabilities at almost every point of its activity. In addition, a well-managed entity should not accumulate excessive funds on checking accounts, and receivables and accounts should be serviced in a timely manner [21].

In many business entities and public sector institutions today, the control of financial resources is a key area of control because financial activities are directly related to many other areas of the organization's activities. Accordingly, financial control processes are linked to the control of all other resources of the organization. Examples of these relationships are listed below:

- a) excess stocks lead to additional storage costs,
- b) inadequate selection of employees entails expenses for firing them and employing others,
- c) inaccurate sales forecasts distort cash flows and have different financial effects.

Therefore, financial problems often generate the necessity to carry out checks concerning various areas of the organization's operation [12].

As an effect, the necessary control processes are carried out, among others, in institutions of the state and local government administration sector. Management control concerns all units of the public finance sector (PFP). Pursuant to Article 9 of the Public Finance Act (PFA), the public finance sector is constituted by:

- public authorities, including government administration bodies, state control and law protection bodies, as well as courts and tribunals,
- local government units and their associations,
- budgetary units,
- local government budgetary establishments,

- executive agencies,
- budgetary economy institutions,
- state special purpose funds,
- the Social Insurance Institution and the funds managed by it as well as the Agricultural Social Insurance Fund and funds managed by the President of the Agricultural Social Insurance Fund,
- National Health Fund,
- independent public health care units,
- public universities, the Polish Academy of Sciences and organizational units established by it,
- state and local government cultural institutions,
- other state or local government legal persons established on the basis of separate acts for the performance of public tasks, with the exception of enterprises, research institutes, banks and commercial law companies.

Table 1. Basic types of control.

| The division criterion | Type of control |
|------------------------|---|
| Control planning | – planned – ad hoc (unplanned) |
| Place of control | – at the headquarters – outside the seat |
| Time of control | – preliminary (ex ante) – current – follow-up (ex post) |
| Scope of control | – comprehensive – problematic |
| Subject of control | – financial and accounting – tax – technical – other (e.g. sanitary, material, work) |

Source: J. Bereza, J. Bober, M. Ćwikliński, *Kontrola Zarządcza, Podstawowe zagadnienia kontroli zarządczej*, Wydawnictwo MSAP, 2015, p. 157.

In terms of the basic functions of management control, the following should be emphasised [2]:

- a) checking whether public expenditure is made in a targeted and accessible manner, in accordance with the principle of obtaining the best results from given expenditure,
- b) optimal selection of methods and means to achieve the set goals, in a manner enabling the timely implementation of tasks, as well as in the amount and on dates resulting from previously contracted obligations,

- c) comparison of the degree of implementation of undertaken tasks with the adopted assumptions,
- d) assessing the correctness of work, issuing recommendations and performing follow-up tasks.

Due to the purpose of the control, the following main functions are distinguished:

- a) the protective function of control (preventing) intended to secure the organization against a decrease in the efficiency of operation expressed in material losses (e.g. poor quality of products) and non-material losses (e.g. improper use of human resources),
- b) creative (inspiring) function, stimulating and initiating activities aimed at increasing the efficiency of the organization's functioning.

Detailed breakdown:

- informative (signalling) function, which consists in providing information on the status, course and effects of actions; making economically appropriate decisions, informing the management of areas where irregularities occur and the reasons for deviations from the assumed standards and goals;
- instructional function - control expressed in advising the inspected person indicates how to eliminate deviations and suggests solutions, provides appropriate advisory assistance;
- stimulating function, i.e. stimulating the increase in the level of motivation of the controlled entity to undertaking more efficient activities, which should be used in a constructive way to improve work and to stimulate the controlled, [21]
- preventive function consisting in preventing unfavourable events in order to reduce potential risks; there are three roles in this function: control as a disciplining instrument, preventing negative effects of decision-making and disseminating patterns of effective action;
- corrective function consisting in restoring the desired state;
- creative function, intended to motivate managers and employees of a given entity to increase the organizational and economic effectiveness of the conducted activity and generate better results.

In recent years, great progress has been achieved in the digitization and internationalization of procedures, the activities of public institutions and in the field of remote contact with citizens. During the SARS-Cov-2 (Covid-19) Coronavirus pandemic, the process of digitization and internationalization of procedures carried out in public institutions and remote communication with citizens has gained momentum [8].

5. Internal control as an organization management tool

Internal control - examines the actual state in comparison with assumptions, plans and patterns. Internal control examines and assesses the course and effects of processes, the adequacy of material and financial outlays as well as all kinds of documents, agreements and reports created during and as a result of these processes.

Internal control may be in the following forms:

- a) inspection,
- b) visits,
- c) revision.

The internal control should provide information on the evaluation of:

- operational efficiency and performance,
- reliability of financial statements,
- compliance with laws and regulations.

Stages of the internal control process:

- a) establishing facts covered by the control,
- b) establishing the pattern used as the basis for comparisons,
- c) comparison of the actual state with the pattern in order to determine their compliance or non-compliance,
- d) determining causes of the ascertained state of affairs and establishing the negative effects of deviation from the standard,
- e) making post-inspection decisions and undertaking preventive actions in order to avoid similar irregularities in the future.

Elements of internal control [17]:

1. Control environment - the basis for other elements of control, intended to ensure its appropriate structure and determine the nature of the organization. It covers such factors as ethical values and employee competences, the style of managing the enterprise, the way of delegating powers and responsibilities, as well as the way of organizing and caring for employee development. The control environment consists of employees with their individual characteristics and the environment in which they operate.
2. Audit Culture - promote high ethical standards and integrity and establish a culture within the institution that highlights and demonstrates to all levels of staff the importance of internal controls. All employees in the institution should understand their role in the internal control process and be fully involved in that process.
3. Risk Assessment - assessment should consist in the identification and analysis of relevant types of risk related to the company objectives. The identification of risks should facilitate their management and attempts at their minimisation. Risk assessment is to be a continuous process, due to the constantly changing conditions of the company operation, which carry new potential risks [14].

4. Control activities - all activities, based on procedures that allow ensuring compliance with the guidelines of the corporate management board. They make it possible to take the necessary measures to identify and minimize risks that threaten the achievement of the company goals. Control activities are undertaken at all levels of the enterprise, in all its individual cells. Examples of these activities include permits, authorizations, verifications, reconciliation and reviews of operating activities.
5. Information and communication - effective communication includes the flow of information inside the company, as well as capturing and receiving signals from the outside and effective communication with the environment of the organization, public or other institution. As part of the flow of information within the organization, it is important for management to remind employees of the need to take the internal control system seriously and to make them aware of their role in this system [32].
6. Monitoring - its purpose is to assess the quality of the control system operation. Monitoring is basically an ongoing process that is carried out in the course of day-to-day management activities. However, ad hoc additional system assessments are warranted, the frequency and scope of which depend on risk assessment and the effectiveness of ongoing monitoring procedures. Any deficiencies ascertained in the system should be reported to the management each time, and this should result in appropriate modifications to the internal control system.

Table 2. Differences between internal and external audit

| Criteria | External audit | Internal audit |
|-----------------------------|--|---|
| Objective A | It serves external entities interested in the company's situation. | Bringing added value to the unit. |
| Range A | The audit focuses on financial aspects of the entity's operations. | All areas of the entity's activities - financial and non-financial. |
| Period covered by the study | Occurring events: in particular, the assessment of inflation contained in the financial statements. | Current status: to a lesser extent ex post events. |
| Research frequency | Most often once a year. | According to plan, all year round. |
| Knowledge of the individual | The external auditor must get to know the entity immediately prior to the audit or during the performance of the audit engagement. | The internal auditor knows his unit. |

Source: Own study.

Taking into account the growing scale of digitization and internationalization of processes carried out in public institutions, including also local government units, the internal control process regarding the issue of verifying the correctness of activities and procedures should also include information flow, including remote data transfer and transferring certain information via the Internet to the citizens [5]. This issue is particularly important taking into account the growing risks of cybercrime as well as constant monitoring and improvement of cybersecurity systems of internet data transfer [25]. In recent years, the risk of cybercriminal attacks targeting enterprises and public institutions has been growing, where cybercriminals use various phishing techniques, sending malware hidden in fake e-mails, including sending ransomware-type viruses hidden in e-mails [13], i.e. viruses encrypting access to data contained in on storage media. Therefore, as part of cybercrime risk management and improvement of data transfer security, it is necessary to constantly monitor information systems, review the correct functioning of IT systems and employees' compliance with information security procedures.

6. Methods of conducting control and audit in units of the public finance sector

Pursuant to Article 70 (3) of the Public Finance Act, by the end of April of each year the minister managing the department is to submit a declaration describing the state of management control for the preceding year in the scope of government administration departments headed by the formula specified in the Regulation of the Minister of Finance of December 2, 2010, on the template of the statement on the state of management control. By ordering the submission of declarations concerning state of management control, the legislator imposed new obligations on the head of a public finance sector unit requiring a quality assessment of the degree to which all standards that constitute the management control system in the unit have been implemented.

All audited ministries complied with the obligation to devise declarations on the state of management control within the designated time limit and in detail specified in the above-mentioned regulation [38]. In many cases, ministers concluded that adequate, effective and efficient management control functioned to a limited extent, and in the remaining three cases to a sufficient degree. Reporting on the status of management control was based mainly on the results of external and internal controls as well as the results of an internal audit. When drafting the statements, the ministers indicated information from monitoring the implementation of objectives and tasks, self-assessment of management control, risk management process and results of internal audit. The results of controls indicate low credibility and limited information value of statements on the state of management control

in three ministries. The Supreme Audit Office raised objections to the method of drawing up statements on the state of management control and to assessing the quality of information contained therein [45].

7. Ethical aspect of control and auditing tasks in units of the public finance sector

Issues concerning the conduct and behaviour of persons providing services that may be of public trust nature are particularly important. Both the standards as such, which a given unit (in our case, the auditor) is committed to, are important, as are the assessment or evaluation of the application of the standards. Currently, there is little data on the results of research into ethics in audit. When this type of research is conducted, the results of the analyses are usually not published or disseminated. This makes it difficult to present the practical side of ethics currently in force in the audit environment. The fact of applying and acting in accordance with the accepted ethical principles to a large extent supports trust in the audit unit. The vast majority of entities conducting or offering internal audit services adopted the entire ethics guidelines developed by the IIA, or based on them, their own documentation regulating these issues. Therefore, it is currently assumed that the IIA regulations are a standard applied in organizations having an internal audit unit or related to audits related to.

In practice, the IIA Code of Ethics is the only such widespread and thus the most frequently used study in audit organizations. This may be confirmed by the fact that the authors of the article did not manage to find other documents dedicated to the issues of ethics in the audit, apart from statements that the organizations adopt the IIA Code of Ethics. Two conclusions may be drawn from this fact: either the IIA Code of Ethics fully and exhaustively expresses the standards that should be followed by the auditor, or the subject is so delicate that no one dares to take it up.

In the context of the issues discussed, it is important to characterize the key principles described in the IIA's Code of Ethics in the context of the practice of the auditor's profession. The first rule of conduct refer to righteousness. According to it, internal auditors [19]:

- conduct their work with integrity, honesty and responsibility,
- obey the law and disclose facts as expected by the law and their profession,
- do not consciously participate in any illegal activity, or engage in any activity that could discredit the internal audit profession or the institution concerned,
- are respectful and contribute to the legitimate and ethical goals of the organization.

The principle of conduct presented above is universal and applies to the entirety of human activity. Hence, its application should not raise any objections. The auditor is not anonymous to the unit in which he works. In his work, he compares the obtained results with the adopted standards or procedures of conduct, becomes committed to them, and in such a way his manner of conduct or behaviour should be a determinant for other people in the organization. An auditor is a profession that requires the adoption of the appropriate attitude not only in the workplace, but perhaps in particular also outside it, so that the overall image of the audit entity is in harmony with the adopted rules of conduct. This often requires some sacrifices.

The second principle of the auditor's conduct relates to objectivity. According to this principle, auditors [27]:

- will not participate in any activity or relationship that could hinder or give rise to fears of impeding (their own) unbiased judgment; such participation includes those activities or relationships that may be in conflict with the interests of the institution;
- will not accept anything that may hinder or raise concerns as to impeding (their forming) professional judgment;
- disclose all material facts known to them which, if not disclosed, may distort the report of activities under review.

This principle addresses one of the most important aspects of an auditor's work, and namely objectivity. The assurances provided by the auditor cannot raise any objections. Therefore, the recipient must be sure that the assessments made by the internal auditor correspond to reality and his judgment is true. This will not be possible if the auditor does not act objectively or, worse, conceals certain facts [32]. It is particularly important when defining the scope of control to openly say what has been checked and what area has not been controlled at all, and in this respect, the auditor's report does not constitute any assurance. In addition, there is another aspect of the auditor's work that is equally important: it is the provision of advisory services. It happens that the consequence of the evaluation service is an advisory service. The head of the audit should then pay attention to whether the advisory engagement will not affect the audit judgment.

Confidentiality is the third principle an auditor should follow. It says that internal auditors [27]:

- will be careful in the use and protection of information obtained in the course of their duties,
- may not use the information for any benefit or in any other way that would be illegal or disastrous for the legitimate and ethical purposes of the organization.

The principle of confidentiality concerns the problem of handling information. It is of particular importance when the auditor learns about the future plans or

intentions of an organization in the course of the work being carried out. Leaving such information outside the circle of entitled persons may, for example, lead to fluctuations in share prices. At this point, the question arises whether the documentation collected by the auditor is properly stored (protection against theft, etc.). It should also be remembered that insufficiently secured information (e.g. draft reports) may be intentionally changed and used without the consent of the author (auditor). It is worth following the principle of limited trust here.

The fourth principle of conduct of an internal auditor raises the issue of competence to perform the profession. It says internal auditors will:

- engage only in the provision of such services for which they have the necessary knowledge, skills and experience,
- provide services in the field of internal audit in accordance with the Standards of the Professional Practice of Internal Auditing,
- constantly improve professional efficiency and effectiveness, as well as the quality of own services.

This principle is of great importance for the practice of the auditor's work. It requires engaging in providing services only when having the appropriate knowledge and skills in the field under study. Is it really so in practice? Nowadays, auditors are often people working in international groups who can benefit from the experience of others and thus fulfil the rule described above. On the other hand, we believe that this principle also refers to the auditor's readiness, the courage to say no and, in justified cases, resignation from the engagement.

The principle of continuous improvement of professional qualifications meets the expectations of the modern economy. Technological progress and constant changes in the world around us mean that often the knowledge we have today may turn out to be insufficient to meet the requirements in a few years. The IIA Code is the basis for developing internal codes of work ethics for the auditor in organizations where the internal audit unit operates [19].

In line with the Auditor's Code of Ethics, the integrity of the internal auditor builds trust in his work, and in such a way provides a basis for reliance on his judgment. Objectivity: the Internal auditor maintains the highest degree of objectivity in conducting internal audit, in particular in collecting, assessing and communicating information on the audited activity or process; performs a balanced assessment, taking into account all relevant circumstances of the audit task being performed. Confidentiality: The internal auditor respects the value and ownership of information he receives and does not disclose it without proper authorization, unless there is a legal or professional obligation to disclose it.

In accordance with the principle of professionalism, the internal auditor should use his knowledge, skills and experience. The conduct of the internal auditor and relations between internal auditors should take into account the application of the principles of business ethics. The internal auditor acts in a manner conducive to

strengthening professional cooperation and good relations with other auditors. Conflict of Interest: The internal auditor is not involved in any audit engagement that may result in a conflict of interest.

8. Control and internal audit in units of the public finance sector

Defining the relationship between internal audit and control requires that both concepts be defined in accordance with the applicable legal norms and standards applicable to the conduct of control processes and auditing activities. The sources of the modern definition of audit are included in the content of the International Standards for the Professional Practice of Internal Auditing as defined by the Institute of Internal Auditors. The definition of this concept is presented in the fifth point of this article. This becomes even more problematic when we try to define the control that some people refer to as internal control. The reason for this is that, on the one hand, quite thorough identification in the Polish doctrine of control administration with the process of comparing the existing state with the expected state, and on the other hand, with the understanding presented by universally recognized standards [31].

In practice, control is often interpreted from the technical point of view, i.e. the way in which it is carried out, while generally recognized standards take into account the role it has to fulfil. In this approach, control means the systematic action of management to establish performance standards (standards) against planned goals, design informative feedback loops, compare actual performance with set standards, identify deviations and measure their significance and take actions necessary to ensure that all resources of the organization are used most effectively and efficiently to achieve goals. The final goal of control is to enhance the efficiency of the organizational unit by eliminating any irregularities, their causes and sources, and by stimulating constructive actions [18].

In the classic approach, control is presented as a comparison of the actual state with the required state. The required condition results from specific legal provisions, internal regulations in a given unit, such as instructions in the legal regulations on the preparation, circulation, control and storage of documents, standards of material consumption, rates of remuneration, standards for natural losses of specific goods and products, etc. To define the relationship between internal audit and control, it is necessary to clarify the interpretation of the concept of control.

In line with the above interpretation of control, implemented in the traditional approach, and especially in its institutional part, it is assumed that it is possible to carry out the control simultaneously with the internal audit. Institutional control is performed by a specialized organizational unit, i.e. a team of employees organized for this purpose. Another form of control is self-control and functional control,

which is carried out by all employees of the organizational unit as part of the assigned tasks and duties. The main function of the internal audit is to evaluate the process and the control system carried out. The conducted research shows that currently the most accepted model of control processes assumes that control systems achieve three main goals [1]:

- a) effectiveness and efficiency of operations,
- b) reliability of reporting,
- c) compliance with relevant regulations.

9. Objectives and components of the risk management process in the context of controls carried out in public finance sector units

Risk management in units is a new key activity required in the management control system. The risk management process [28] should begin with setting out of a mission conducive to establishing a hierarchy of goals and tasks, in the implementation of which the unit or the minister competent for a specific government administration department participates [26].

Implemented and properly maintained risk management system [26]:

- can increase the probability of achieving goals,
- encourages active management,
- increases awareness of the need to identify and deal with risk in the organization,
- supports and improves the identification of threats and opportunities,
- establishes a solid foundation for decision-making and planning,
- supports compliance with the law and other requirements,
- improves financial reporting,
- allows achieving perfect organizational order,
- strengthens the trust of stakeholders in the organization,
- improves control mechanisms,
- allows the effective allocation and use of resources to deal with risk,
- improves operational efficiency and effectiveness,
- improves loss prevention,
- minimizes losses,
- improves the learning of the organization.

The research shows that many business entities and public sector institutions have not yet implemented integrated risk management systems, i.e. those in which management control is an integral segment of the entire process. Significant weaknesses of the management control system functioning in some organizations, in government administration units, relate to two elements of this system, defined in the standards, i.e. the purpose and risk management and detailed information on

control mechanisms [37]. In six units (40% audited) the management control system has not been fully tailored to the requirement specified in Art. 68 sec. 2 point 7 of the Public Finance Act.

Until the end of the audit, directors of organizational units in the Ministry of Finance only identified the risks that are significant for the achievement of the operational objectives related to the implementation of tasks, but did not assess the significance of the risk in relation to the objectives pursued, prepare separate risk maps for tasks and monitor operational risk, in including the functioning of control mechanisms in terms of their adequacy and effectiveness. In view of the above, the application of management control standards should also apply to the process of employing and training employees [26].

10. Summary

Already in antiquity, i.e. two and a half thousand years ago, Plato wrote that “no one is honest out of good will, but either has no courage, or is too old, or under the influence of some other powerlessness, rebukes dishonesty, because he is not dishonest”. These were not words resulting from sarcasm, but the observation of a mature thinker, almost an old man, who went down in history as an idealist and philosopher. Contemporary interpretations of the essence of control processes correlate with these words, suggesting that: “control is always better than trust” [1]. In numerous analyzes relating to the study of the essence of modern control processes this supposition also appears in a modified form of the thesis, according to which control should support the highest form of trust.

This study discusses the control process and internal audit, and forms of verification that may be used in organizational units, in accordance with applicable law. The most important normative documents are described, which should be read by every person performing the work of a controller or internal auditor in an organizational unit.

Internal control carried out in a given organizational unit is usually not a completely independent process that does not affect the functioning of the controlled entity. Internal control is usually conducted as a multidirectional, constantly repeated process in which control processes affect specific aspects of the activities of the audited institution.

The conducted research shows that control is also considered an important tool that supports the process of effectively conducted risk management. Therefore, internal control is considered an important factor in the process of managing an organizational unit. Control allows identifying the differences between planned and achieved values. During the control, factors generating potential

risks are identified that may have a significant impact on the situation in a given organizational unit.

Research on the theory of control shows that control as an activity is one of the key aspects of economically effective management processes. The high rank of control processes is also emphasized by the location of control as a separate scientific discipline in socio-economic sciences. Similarly as control, internal audit is usually defined as the activity supporting an organizational unit in achieving its goals. Audit functions in an organization to make sure that the organizational unit achieves its current and strategic goals in the most effective way possible. In practice, this means not only performing financial audits in this unit, but also particularly important operational audits covering various aspects of the organization's operations [6].

Summing up, on the basis of the above considerations it has been shown that the key principle that determines the functioning of internal audit is its independence. However, it is not always the case that the auditor is fully independent of the head of the organizational unit in which he is employed. On the other hand, there should be independence from the activity subject to the audit assessment, which is to ensure an objective and free of any influence evaluation of the functioning of a given process in the entity for the management of the entity.

In connection with the above, the purpose of the audit task is an independent and objective assessment of the processes, systems and procedures existing in a given organizational unit and, consequently, bringing added value to the organization at a specific examined level. Many analysts of the issue claim that this is what makes an audit different from control, that it brings a certain added value after an audit in a specific area of activity of a given organizational unit [20]. One cannot function without an efficiently managed internal audit unit, which focuses on the analysis of risks arising in the company, because it was the development of management practices that created the idea of auditing. It is still a new phenomenon in the Polish reality; therefore, it arouses justified interest, especially among public sector auditors, giving rise to many discussions about its role and functions.

Therefore, it is particularly important to properly formulate the rules of practicing this profession. The Polish legislator contributes to the use of auditing in public administration as a tool to improve the organization, and above all to help it achieve the goal for which it has been established. The legal framework offers a great deal of freedom in this regard allowing the choice of the appropriate approach. On the one hand, this opens up many possibilities, but at the same time also creates threats and certain risks.

Due to the fact that internal audit is not limited to the financial area, it gives the opportunity to look at the entire entity in order to find and eliminate its weaknesses. This activity basically supports the management of the entire public

sector in achieving its mission, and in particular in obtaining the satisfaction of citizens by providing goods and services of the highest quality.

In Poland, some public sector institutions are still restrained in the pace of introducing standardized audit procedures, which is also due to an incomplete understanding of its essence. Only a few public sector entities have a precisely defined implementation plan for a new position or organizational unit in the context of auditing activities. Public sector institutions, which have not yet implemented standardized audit procedures tailored to European Union standards, should complete these issues as soon as possible.

The main idea of improving internal audit procedures is the widely accepted thesis according to which public sector institutions, entities of state administration, are appointed to serve the society and perform specific functions of the state. Therefore, improving the procedures for conducting internal audit processes is necessary, because in this way the quality of the said service will be enhanced in relation to the society and the effectiveness of the implementation of the state functions [7].

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