

Cooperation among Public Sector Audit and Financial Inspection Entities

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Internal Audit Training of Trainers



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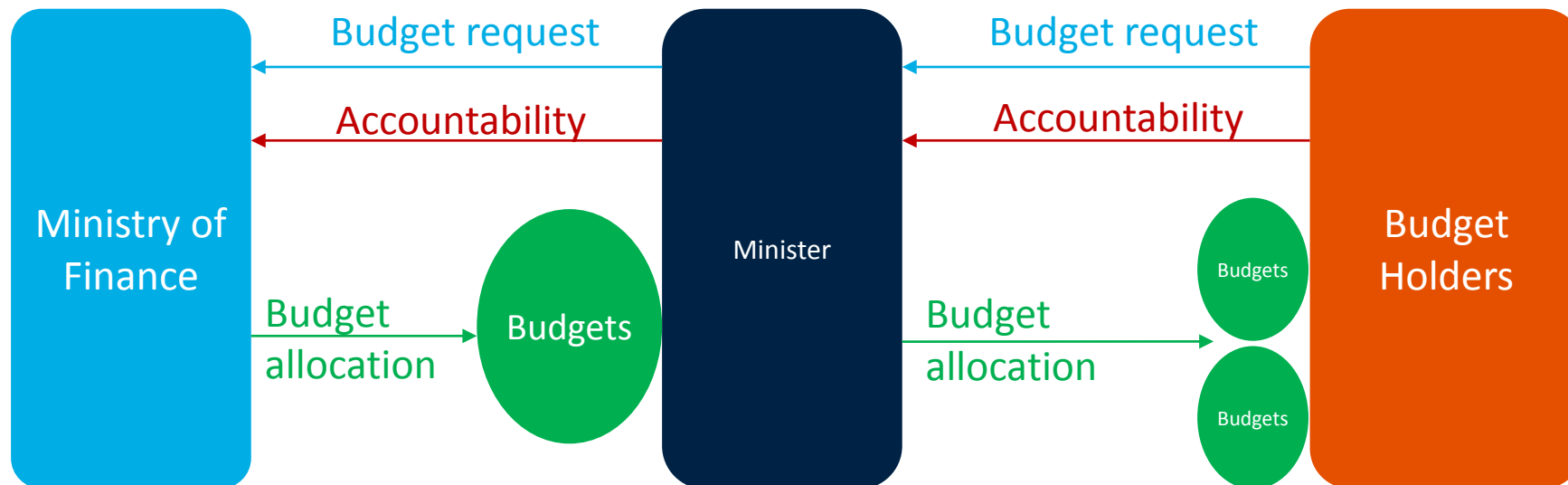
The reform concept



Two different models of budgetary control

- **Anglophone Model**

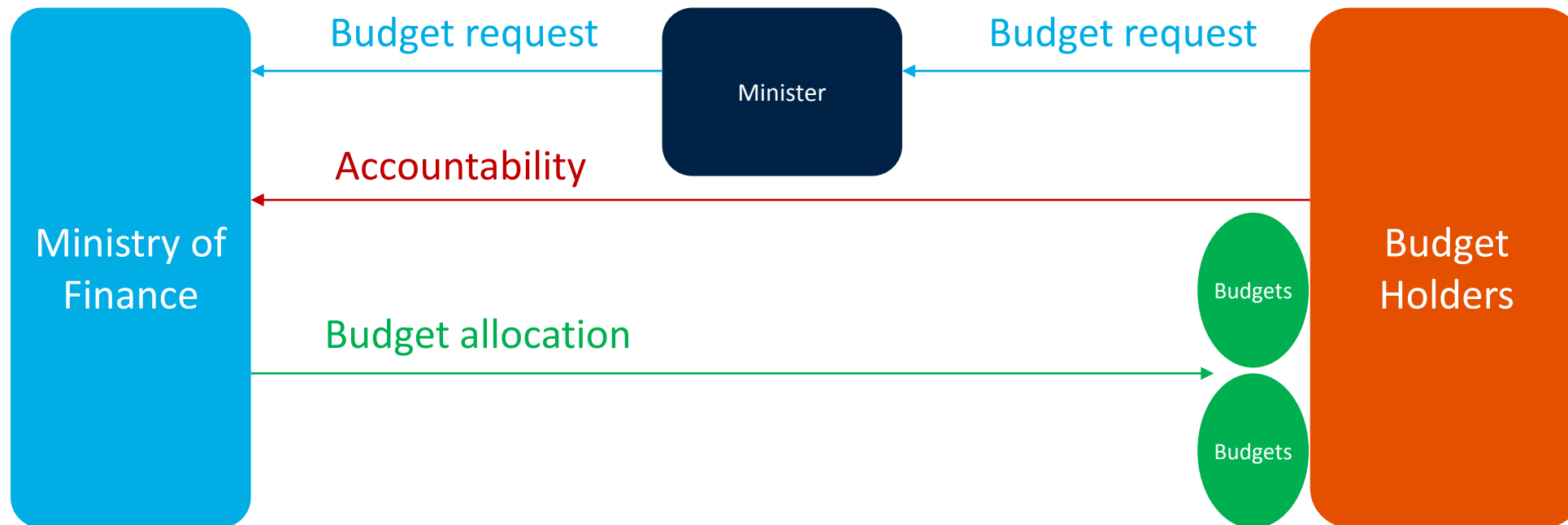
- » Budgets are provided to Line **Ministers** who make **decisions** on allocations within their Departments. **Ministers** are **accountable** to Parliament for the way funds have been spent.



Two different models of budgetary control

- **Francophone Model**

- » Budgets are provided to **budget holders** within Ministries who are **accountable** to the **MoF** for the legality and compliance of budget expenditure





Key players



The role of Government

»Minister of Finance

- »Needs to accept the relevance of **fundamental changes** in the system of internal control
- »Must be willing and able to create strong central harmonization unit - **CHU**
- »Must believe in the longer term benefits of Ministerial **Accountability** and the **role** of IA in supporting it



The role of Internal Audit Unit

- » Heads of newly created Internal Audit units
 - » Must be willing to **learn** and open to **new ways** of working
 - » Able to establish strong **relationships** with senior **managers**
 - » **Coach** and **mentor** the audit staff
 - » Contribute to the **CHU** and **profession**
- » Manage the two types of audits
 - » **Assurance** Services – an independent assessment of governance, risk management and control processes
 - » **Consulting** Services – advisory and related client service activities



The role of SAI

- » Supreme Audit Institution
 - » Is probably going through a similar **transition** from an external **control** body to an external **audit** body
 - » May see Internal Audit as a threat
 - » May see Internal Audit as a partner
 - » **Lead collaboration** with Internal Audit and Financial Inspection
- » Three main types of SAI audits
 - ✓ **Financial** audit - providing audit opinions on financial information
 - ✓ **Performance** Audit – evaluating the economy efficiency and effectiveness of an activity or program.
 - ✓ **Compliance** audit – whether a particular subject matter is compliance with authorities identified as criteria.



The role of Financial Inspection

- » Carry out **ex post financial controls** through examination of document and facts of the financial and management activity of state institutions and state owned companies, to follow up on **irregularities** and impose administrative **penalties**
- » Financial inspection is **not** responsible for **prosecutions** but provide evidence to prosecution authorities
- » Develop **skills** required for inspection
- » Follow up on the **fraud, corruption, irregularities** identified by internal **auditors**, SAI, other public officials, and through **complaint** (whistleblowing) arrangements
- » Help the staff to be **trained** and **transitioned** to the internal audit units
- » During transition from the Francophone to the Anglophone model the long-term role of FI require **regular reviews**. This is needed to ensure the **right balance** between the roles of internal audit and financial investigation





Placement of Internal audit

(source PEMPAL IACOP survey)



	Internal Audit			
	First level budget users	Second level budget users	In local government bodies	Other public entities
ARM	M	O	M	O
B&H	M	M	M	
BUL	M	O	M	O
CRO	M	M	M	M
HUN	M	M	M	O
KAZ	M		M	
KYR	M	M	M	
MAC	M	M	M	M
MOL	M	O	O	O
MNT	M		M	
ROM	M	M	M	M
RUS	M	O	O	O

Financial Inspections			
Government	MoF	Local gov. bodies	Ministries
	X		
	X*		
	X		
X	X		
X			
	X		
	X		
	X		
	X**		
	X	X	X
X	X		X

Mandatory

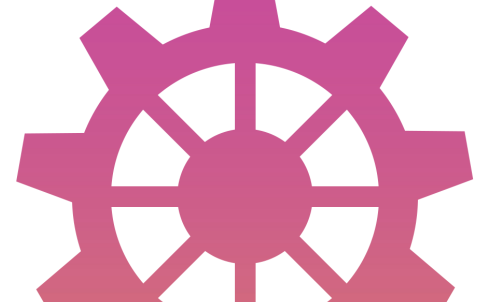
Optional

Not defined





PEMPAL IACOP RIFIX insights



PEMPAL

IACOP
Internal Audit
Community of
Practice



Main Focus of External Audit, Internal Audit, and Financial Inspection

	Internal Audit	External Audit	Financial Inspection
Financial audit		√	
Compliance audit	√	√	√
Performance audit	√	√	

Features of Internal Audit, Supreme Audit Institution, and Financial Inspection

Features	Internal Audit	Supreme Audit Institution	Financial Inspection
International standards exist	Yes. Issued by the IIA	Yes. Issued by INTOSAI (ISSAI)	No
Standards govern work	Yes, if internal audit is mandated to follow standards	Yes, if SAI law requires SAI to follow standards	No
Provides opinion on financial statements	No	Yes, if carrying out external audit	No
Conducts ex ante reviews of systems and processes	Yes	No	No
Risk-based planning	Yes	Yes (usually)	Possibly



Features of Internal Audit, Supreme Audit Institution, and Financial Inspection (cont'd)

Features	Internal Audit	Supreme Audit Institution	Financial Inspection
Scope of examination	All areas of the public sector organization	Provide an opinion on the financial statements, or conducts cyclical review of all financial transactions and finance related processes.	All financial transactions and finance related processes
Coverage	Based on internal audit strategy and risks	<p>If carrying out external audit issues annual audit opinion on financial statements. Cyclical performance audit</p> <p>If not carrying out external audits the coverage is usually cyclical with the aim to review all budget holders over a number of years.</p>	Cyclical with the aim to review all budget holders over a number of years

Features	Internal Audit	Supreme Audit Institution	Financial Inspection
Purpose of any review of internal controls	To provide assurance to management on the effectiveness of controls	<p>When carrying out external audit the SAI may determine whether controls are operating effectively to reduce direct substantive testing</p> <p>If not carrying out external audit the SAI may review controls to identify areas of non-compliance and violations of regulations</p>	To identify areas of non-compliance and violations of regulations
Role in relation to fraud and corruption	<p>May identify areas of possible fraud and corruption from audit work</p> <p>May also carry out audits in areas of high risk of fraud and corruption</p>	May identify areas of possible fraud and corruption from other work	<p>Inspection may be planned to examine areas of high risk of fraud and corruption</p> <p>May identify areas of possible fraud and corruption from other controls work</p>
Results of work	<p>Assurance</p> <p>Recommendations for action by management</p>	<p>When carrying out external audit provides audit opinions (qualified and unqualified) and other reports to Parliament</p> <p>When not carrying out external audit - corrections and sanctions</p>	Corrections and sanctions



Avoiding overlap and confusion





Avoid overlap and confusion

- » Multiple audits of the same institution
- » Review of the same financial transactions by different entities
- » All institutions may identify cases of potential fraud and corruption
- » The examination of systems of internal control
- » Some overlap may be inevitable but may not cause problems where there are standards for cooperation e.g. between internal and external audit
- » Confusion between roles of control bodies and frustration on the stakeholders side



Cooperation: Benefits and Risks





Benefits of Cooperation

- » Exchange of ideas and benefits
- » Strengthening mutual ability to promote good governance.
- » Minimizing disruption to the entity being audited or inspected.
- » A more informed dialogue on the risks facing the organizations
- » Better coordinated audit and inspection activity based on joint planning that maximizes review coverage



Risks of Cooperation

- » Compromise of confidentiality
- » Possible conflicts of interest
- » Dilution of responsibilities
- » Use of different professional standards or lack of standards relating to the work undertaken
- » Misinterpretation of conclusions when using each other's work
- » Possible differences of opinions and conclusions



Cooperation Options

- » Communication of audit planning/audit strategy (e.g. joint planning sessions);
 - » Regular meetings between auditors of IA, SAI and FI;
 - » Arrangements for the sharing of information (including consultation procedures);
 - » Communication of the results of audits/inspections to each other;
 - » Organizing common training programs and courses
- » Developing methodologies;
 - » Sharing training materials, methodologies and audit work programs;
 - » Granting access to audit documentation;
 - » Secondment or lending of staff (e.g. training on the job);
 - » Use of certain aspects of each other's work to determine the nature, timing and extent of audit procedures to be performed;



Thanks