Chapter 32 Financial Control: PIFC and External Audit

European Commission
DG Budget B4

Explanatory session
Serbia screening
17 October 2013
Content

Part 1 - Public Internal Financial Control (PIFC)
Part 2 - External Audit
Part 3 - The bilateral session
Public Internal Financial Control

PIFC is made up of:

• Managerial Accountability arrangements based upon decentralised Financial Management and Control systems (FMC).

• Functionally independent Internal Audit (IA).

• Central Harmonisation Unit (CHU).
Managerial Accountability

- Entity managers are responsible for establishing an effective internal control environment in their organisation.
- A strong internal control structure is fundamental to the control of an organisation and its purpose, operations and resources.
Managerial Accountability – critical success factors

• An effective delegation framework of decision making powers to middle management.
• Clearly defined functions/responsibilities.
• Clear reporting and accountability lines.
• Top and middle management to have clear responsibility for delivering value for money.
• Transparent decision making processes in the public interest: openness to public scrutiny.
Financial Management and Control

The FMC system operates through internal control components including requirements for:

- Control environment
- Managerial risk analysis and risk management
- Control activities
- Information and communication
- Monitoring

(Source: COSO)
The scope of FMC

FMC aims to achieve organisational objectives in the following categories:

• Strategic  High-level goals, aligned with and supporting its mission
• Operations  Effective, efficient and economic use of its resources
• Reporting  Reliability of reporting
• Compliance  Compliance with applicable laws and regulations
The financial element of FMC

• The FMC system covers:
  – All kind of commitments (budget allocations/appropriations, contracts)
  – All tendering and contracting
  – All kind of income, disbursements, management of assets and liabilities
  – Recovery of unduly paid amounts

• All public money – No matter which source
Internal Audit - Role

• Functionally independent and objective assurance and consulting activity about the robustness of the FMC systems in terms of legality, regularity and economy, efficiency and effectiveness.

• Aims to add value, improve an organisation's operations and helps to accomplish organisational objectives.
Internal Audit: Independence

• IA function is established by the top manager.
• IA reports to the top manager, but it is functionally independent of all management activities and influence within the organisation.
• IA does not take any responsibility for design, implementation and running of FMC systems.
• IA has full autonomy in relation to drafting and implementing the audit plan.
Internal Audit: continuous professional development

• International and national certification schemes.

• Certification procedures to support a coherent and trusted public internal audit profession.

• Comprehensive and sustainable curriculum for internal auditor development is required.
Centralised Financial Inspection

- Centralised financial inspection can be essential to the successful implementation of PIFC, although not included in the PIFC concept.
- Where existing, centralised financial inspection is to be clearly separated from the internal audit function.
- Centralised financial inspection refers to:
  - Fight against fraud and corruption only.
  - Operations performed on an ex-post basis only.
  - Specialised investigations, acting on complaints or request only.
Role of the Central Harmonisation Unit

Coordination and harmonisation of FMC and IA:
• Development and implementation of strategy and legal framework
• Development of methodologies and guidelines
• Networking and promoting best practice
• Overseeing systems development
• (Annual) assessment and reporting
PIFC related frameworks, standards and guidelines

• COSO/COSO II ERM
  – http://www.coso.org

• Internal Control (INTOSAI)

• Internal Audit (International Professional Practices Framework - IPPF)
  – www.theiia.org

• “Welcome to the World of PIFC” by DG Budget
Part 2
External Audit
External Audit

- A Supreme Audit Institution (SAI) that audits government activities and reports to the Parliament.

- Full INTOSAI compliance, including
  - Constitutional anchorage,
  - Independence: functional, institutional and financial,
  - Full audit coverage: financial and performance audit.
External Audit standards

• International Organisation of Supreme Audit Institutions (INTOSAI) standards
  – http://www.issai.org/

• Lima declaration
  – http://www.issai.org/media(622,1033)/ISSAI_1_E.pdf

• Mexico declaration
  – http://www.issai.org/media(626,1033)/ISSAI_10_E.pdf
Part 3

The bilateral session
For the bilateral session - PIFC

• Final versions of adopted PIFC Strategy documents, the PIFC law and any by-laws and Rulebooks.

• State of play regarding the practical operation of FMC, with particular reference to:
  – Managerial accountability structures,
  – The need for, and linkage to, Treasury and Budget reforms and operations,
  – Internal Audit set-up
  – FMC and IA training (and certification),
  – Any proposed operation of centralised financial inspection.
For the bilateral session- EA

• Final versions of Development Strategy Documents.

• Final versions of current legal framework and any plans for revision.

• State of play - current functioning in relation to INTOSAI standards.