

## PEMPAL Internal Audit Community of Practice (IACOP)



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### Internal Audit: Sustainable Development Guarantees

*“My dear, here we must run as fast as we can,  
just to stay in place. And if you wish to go anywhere  
you must run twice as fast as that.”  
Lewis Carroll, Alice in Wonderland*

The modern world is characterized by rapid development dismissing any possibility of a conservative approach to management, which is equally valid for businesses and public authorities. Survival of an entity in a competitive environment depends on its capacity to transform the management methodologies in response to the challenges of the time and critically rethink the functional processes, and its readiness for a fundamental change of its activity fields.

Still, how can an entity select the right development vector and correctly identify optimization opportunities without detriment to its own sustainability while giving reasonable guarantees that both current and future circumstances will not have negative implications for the stability of its operation?

It is not easy to find universal answers to these questions; however, there is a mechanism without which all other instruments will not give the desired effect: it is internal audit.

Different countries have undergone different stages in internal audit development. According to the current Western concept, an internal auditor is a kind of the “third eye” of the

entity's senior officer pointing to things that should be optimized in the operation of a complex mechanism which he/she leads. It is partly related to the specifics of political system development when large entities or public authorities were headed by political players who did not have professional expertise in the respective areas. In Russia, entities are usually headed not only by policy makers but also by people experienced in the given field. In that case, the internal auditor plays a somewhat different role while remaining an independent and objective assistant to the senior officer.

Over the last few years, there has been a debate at various venues – forums, workshops, conferences – about the terminology and answers to the following questions:

#### **What is internal audit? What are its fundamental differences from internal control?**

How can the internal audit system be correctly organized in cases where there are limited resources and necessary information must be quickly obtained for fast and balanced management decision making? There are no unambiguous answers to these questions but we will try and share experience generated by Russia's Federal Treasury in establishing the

internal audit function. It may be useful for setting up similar systems.

In brief, according to the Federal Treasury, the establishment of an efficient internal audit system boils down to the following fundamental premises.

First, it is necessary to have a clear understanding that the internal audit system (as well as the internal control system) is primarily designed to provide for a high quality and sustainable operation of the entity as a whole rather than to identify bottlenecks or violations. It is, in our view, one of the key principles for establishing an internal audit system.

Second, the internal audit function shall be structured in line with generally accepted international standards that have been tried and tested for a rather long period.

Third, the system shall be functionally independent and directly subordinate to the entity's senior officer. It is a precondition for smooth functioning of the internal audit system and a failure to do so would make it difficult to give an objective picture of ongoing processes due to a potential conflict of interest if the system is subordinate to intermediate management levels, especially when they supervise functional activity areas.

Fourth, it is division of responsibilities in documenting audit findings. If an entity has an internal audit unit and audit activities are performed by employees subordinate to the head of the unit, these officials should sign various internal audit documents on their own depending on the decision making level.

In the Federal Treasury, for example, the internal auditors directly involved in audit activities draft and sign statements on the results of the activities. The statements describe the true state of affairs in the audited field and propose conclusions to be made and actions to be taken to implement the findings. Having analyzed the respective statements, the head of the internal audit unit drafts and signs the audit report containing conclusions and proposals on response actions to be taken.

Fifth, we believe that prior to submitting the audit findings to the entity's senior officer, it is necessary to organize their collective discussion with the functional specialists while retaining the audit unit's/auditor's right to dissent on the issues under consideration. To that end, the Federal Treasury has established an Audit Council comprising the heads of the key functional units. Collective discussion of audit findings prior to final decision making is practiced both in the Chamber of Accounts of the Russian Federation and the Federal Treasury as a public internal financial control authority.

Sixth, it is necessary to use a risk-based approach to internal auditing planning and implementation. Due to limited human, time and financial resources available for internal auditing, the entity should develop criteria based on which it should select audit objects and subject matter. The Federal Treasury has approved and implemented a Risk-based Internal Control and Audit Model that describes criteria and auditing techniques to be used depending on a risk event.

Seventh, internal auditing in an entity should be standardized. While there is a number of generally accepted international standards, they cannot describe all specific aspects of the operation of an individual entity. The Federal Treasury has approved the Internal Control and Audit Standards to be used by the control and audit units that standardize all procedures performed by the internal auditors.

Eighth, we are strongly convinced that the internal audit should not target only the financial aspects because entities and, in particular, public authorities, are also established for purposes other than just spending financial resources. Each of them has its clearly defined goal, and it is a task of the internal audit function to identify to what extent the entity achieves its goal and what should be done to make its operation more efficient and sustainable. Therefore, the Federal Treasury performs a functional, technological and administrative audit in addition to the financial one.

Ninth, a well-known statement that "people make all the difference" applies fully to the internal audit system. Staff working in this field shall meet stricter requirements as, in addition to professional competence, they should be utterly objective, independent and clear when formulating the audit findings. Therefore, the Federal Treasury has established a pool of internal auditors comprising, apart from the staff of the internal audit unit, specialists from its regional offices who meet all qualifying requirements and have professional expertise in specific fields of activity.

Tenth, it is necessary to establish professional development sites for internal auditors. The Federal Treasury holds annual national workshops and meetings on internal audit issues, and runs corporate contests *The Best Internal Auditor* and *The Best Internal Audit Unit* as well as a contest *The Best Media Publication on Internal Audit System Functioning*. The prize winners receive awards from the management of the Federal Treasury at an official ceremony.

Eleventh, for spatially distributed systems such as the Federal Treasury, offsite activities with a remote access to information to be analyzed is of special importance. In this context, practically all internal audits of remote objects use the above approach which significantly reduces the period of direct interaction between the object and the auditor, in addition to cutting input costs.

The twelfth premise is critically important for all internal audit systems in a country. It is the introduction of an external system to assess the quality of internal audit systems in entities. Russia has established this mechanism, and it is the Federal Treasury that is currently vested with authority to analyze the internal (so far only financial) audit function of the chief administrators of budget funds. Pursuant to the approved requirements, it conducts an annual analysis of the quality of the internal audit system in almost all federal executive public authorities and gives rankings that, among other things, take into account the results of the audits performed by the public financial control authorities and investigations by the Prosecution Service.

The above list may be continued, and each of these principles and fundamental premises may be turned into a separate article.

No matter how different the structures of the internal audit systems in different countries may be, they have one common feature: all of them guarantee not only the stability of the respective public authorities and entities but also their sustainable development which is critically important in the context of rapidly developing economic relations.

## **An overview of public internal financial control reform in France**



**Stephan Roudil,**  
*Rapporteur général of the Central harmonisation committee for internal audit - Ministries of Economy and Finance - Ministry of Public Reform and Simplification, France*

*Diana Grosu-Axenti: Mr. Roudil, thank you very much for accepting the invitation to share in our newspaper the French experience. This is a great opportunity for us to better understand how you built the system since the beginning of the reform. Let start with central harmonization unit: have you set a responsible unit for harmonizing the IA system and what are it's functions?*

Stephan Roudil: The central harmonization Committee for State Internal Audit (Comité d'harmonisation de l'audit interne de l'État -CHAIE) is the guarantor of the coherence and the credibility of the State Internal Audit policy of the French government.

Settled in April 2012, the CHAIE is, by its composition and its position, a legitimate and essential actor for all issues and concerns related to internal auditing within the State Administration in France. Chaired by the minister in charge of State Public Reform, presently Mr. Gérald DARMANIN (minister of public action and public accounts), the CHAIE is composed by 17 members: 12 responsible persons of ministerial internal audit department, one representative of the director general of the Public Finances directorate, one representative of the director general of Budget Directorate and 3 qualified individuals nominated by the Prime Minister.

The attributions of CHAIE, established by the Decree of Prime Minister on 28th June 2011, assign a triple mission:

1. Drawing up the French standards for the professional practice of internal auditing (cadre de référence de l'audit interne de l'État - CRAIE) and ensuring its implementation, especially with the generalization to all ministries of a quality assurance and improvement process under the guidance of CHAIE ;

2. Strengthening the professionalization of all actors in the field of State Internal Auditing and the development of all relevant transverse methodologies or good practices useful for the ministerial internal audit department as well as for the State public agencies in order to perform their responsibilities;

3. Examining the internal audit policy of each ministry and the formulation of recommendations.

The progress since 2011 is substantial, even if certain works have advanced more quickly than others.

Then, the new version of CRAIE taking into account the last evolutions of the IIA's IPPF is now adopted and enforceable.

Diana Grosu-Axenti: Could you please elaborate on the professionalization of state internal audit?

Stephan Roudil: To this regards, the CHAIE is implementing, in partnership with the Training Center of the Ministry of Finance (IGPDE) and the French IIA Chapter, a structured, coherent and certified offer of trainings in the field of internal control and internal audit, for all stakeholders at State level. In parallel, the CHAIE works with the General Directorate of Public Administration (DGAFP) on a better definition of these functions into the interministerial register of the State jobs (RIME) in complementarity with the traditional duties of general inspectorates, inspection and control bodies.

In addition to the training offer, the CHAIE is developing the "Cercle de l'audit interne de l'État", a platform for sharing and exchanging information, experiences and practices, with a triple objective to unify all stakeholders in the field of State internal, including all State public agencies, to increase the professionalization and to facilitate political resonance.

To finish, the CHAIE is implementing its central mission of examining the internal audit policy defined by each minister, according to a principle of strategic assistance to the ministries.

Diana Grosu-Axenti: What was the main reason to start the reform of public internal financial control system how have you structured and organized internal control and audit in French public administration?

Stephan Roudil: The implementation of internal control and internal audit into the State in France is based on the recent and increasing conviction that it exists major ministerial risk related to the execution of public policies (and not only on financial issues) which have to be managed and controlled under the direct authority, responsibility and accountability of ministers. Internal control and internal audit approaches at State level in France is mainly regulated by the decree of the Prime minister of June, 28th 2011.

The Decree, completed by a circular letter on technical issues, put provisions regarding the obligation to implement internal control and internal audit activities on all department, functions and businesses on the entire scope of public policy performed under the authority of the State in France. The current regulation foresees that each minister is responsible and accountable for public policy he or she has in charge. Therefore, a governance system have been set up in each ministry, articulated between an organizational independent internal audit committee (Comité ministériel d'audit interne – CMAI) and a ministerial internal audit department (Mission ministérielle d'audit interne - MMAI). Moreover were nominated in each ministry a unique responsible person, the Head of MMAI, to supervise all internal audit activities within the scope of each ministry.

The CMAI, chaired by the minister or the Head of cabinet, is composed by a limited number of members who are predominantly selected among external personalities who do not assume any operational responsibility within the ministry. In addition to ensure the independence of internal audit activities and the quality of their works, its main function is to define the ministerial internal audit policy which has to be implemented by the MMAI.

Certain ministries, as ministries of finance, Justice, or Health for instance, have in complement set up a ministerial risk committee (Comité ministériel des risques – CMR) which is composed by all directors of central administration under the coordination of the General Secretary of the ministry. The CMR is especially in charge of the strategic risk mapping.

It is the dialogue and the complementarity of these governance bodies which enable to each ministry to count on a relevant and adapted system in order to appreciate, with the highest level of objectivity, the management and control of ministerial risks.

In parallel to this decentralized system of internal control and internal audit system at ministerial level, the existence of strong stakes of coordination between the 12 ministries or groups of ministries have requested the creation of a governance body at inter-ministerial level in charge of regulation, impulsion and mutualization : The central harmonization Committee for State Internal Audit (Comité d'harmonisation de l'audit interne de l'État -CHAIE).

### **Diana Grosu-Axenti: Why the generalization of internal audit within State administration in 2011? Isn't late?**

SR: First of all, the French State administration has a long tradition of controlling the public affairs. The main control bodies (at the broader sense) have been established several centuries ago. Therefore, it was crucial to take into account these important elements of the French administrative culture to implement modern tools of public governance and management that are internal control and internal audit. Moreover, if these tools appeared in the private sector for 50/70 years, they were introduced progressively into the public sector

in end of 90,s, quite recently. And by definition internal control and internal audit are tools for strengthening the public management and improve the capacities of public managers. That is why, the French Parliament and all successive governments since 90's have supported the modernization of public administration and public management, step by step, as follow : first, design and implement the Public administration reform (2001-2006), second, secure the budgetary and accounting processes for all public revenues, expenditures and assets (2006-2010), third, generalize internal control and internal audit to all businesses (means related to all public policies decided by the government), as the management tools for ministers, public managers and staff.

### ***Diana Grosu-Axenti: Did internal audit activities replace the traditional inspection or control activities? If no, how internal audit is different of inspection and control activities in French administration?***

Stephan Roudil: Internal audit functions and activities, generalized in 2011, are different and complementary with traditional inspection and control activities. Indeed, within the French administrative culture and environment, 3 types of assignments have to be clearly distinguished although they can be performed by the same civil servants acting into the general inspectorate or general control departments:

- the assignments of inspection, of administrative inquiry and of verification, which are focused on the conformity, regularity and legality of all actions performed by the staff, according to the laws and rules ;

- the assignments of support (also named evaluation or advise) which consist to help the top management in the decision making process in the field of public policy. Especially focused on assessment of outcomes, these assignments request a specific methodology in term of evaluation;

- the internal audit assignments which are focused on the protection of minister against potential risks which could threat the achievement of objectives of the ministry in term of performance of the public policies.

Therefore, these 3 kinds of assignments have different goals and different methodologies. In addition, the 2 first ones are related to the 2nd line of defense, while internal audit is the 3rd line.

The recent introduction of internal audit activities in compliance with IIA Standards, traditionally essential in the private companies, is a sign of the maturity of the State in the field of good public governance.

The role of the CMAI, of the MMAI and of the CHAIE is to support collectively this modern approach of public management, on behalf of and under the authority of the ministers.

***Diana Grosu-Axenti: Since 2011, what could be the record of the settlement and implement of internal audit, and of the added value of the CHAIE?***

SR: The reform of 2011 has required an important phase of structuration and acculturation, for the ministries and at inter-ministerial level. This new managerial practice into French public administration actually requires the establishment of new professions, often regulated by internationally recognized standards (OECD, European Commission, professional institute or committee,...).

The first step was to set up all structures (including governance bodies) in charge of internal control and internal audit functions at ministerial level as well as inter-ministerial one.

Second was to define and advocate the professional frameworks for internal auditing in State administration (le cadre de référence de l'audit interne de l'État - CRAIE). The CRAIE and COSO approach was adopted in 2013.

Today significant progress have been accomplished and the maturity of all stakeholders of internal control and internal audit fields has increased: the CHAIE is the known and recognized inter-ministerial reference body, and all ministries or groups of ministries (12) are engaged in implementation and continual improvement of their overall system of internal control and internal audit, under the direct leadership of each minister. That is why, the needs and priorities is now to create the best conditions for the key players to be able to provide a guarantee to the minister that the public policies are implemented through an effective and efficient execution process, and then that the risk management system enable to prevent the occurrence of any bad event related to their capability to assume their responsibility and accountability in term of performing the public policies they have in charge.

However, in a context of appropriation of internal control and internal audit is still unequal and perfectible, and where important changes (and then new risks) are expected with the implementation of the public reform program (Action publique 2022) decided by the government in October 2017, several challenges to face are in the roadmap of the CHAIE. Assigned by the President of CHAIE, Minister Gérald DARMANIN, and sent to Prime minister and all ministers, the CHAIE has especially to focus its attention and works on :

The affirmation of the position and role of internal audit at State level, which has the role to alert, prevent, detect and help to put risks (strategic and operational) under control in order to assure that objectives of ministers and departments in term of public policies, shall be achieved ;

- The strengthening of competences and skills of all players of internal control and internal audit functions with the implementation of high level training sessions, in complementarity with an exchanges of practices and experiences system focused on providing an added value to the ministers ;

- The strategic coaching and assistance to the ministries by assessing the relevance of their choices realized in term of organization and functioning of internal control and internal audit systems for an optimal coverture of major strategic risks ;

- The advocacy and valorization of State internal control and internal audit for the purpose of facilitating the appropriation of the strategic and operational approach, and the add value of internal audit.

All these works are in total interaction and focused on the professionalization, at the broader sense, and, at final, on the appropriation of risk management (internal control and internal audit) at political level.

## **PERFORMANCE AUDIT PLANNING: SPECIFIC FEATURES**



***Tatyana Borovkova,***  
*Head, Public Financial Audit Development  
and Eurointegration Department, State Audit Service,  
Ukraine*

***Diana Grosu-Axenti: Tatyana, why did you choose this particular topic?***

Tatyana Borovkova: I am strongly convinced that the current development stage of most ECA economies is characterized by a focus on government performance and governance efficiency. Public trust in government is usually reflected in the level of public satisfaction with services provided by public institutions and organizations. Improved performance by public institutions eases social tensions and raises their status in the society.

Progress measurement and social responsibility cannot be confined to monitoring the implementation of indicators and one-off economic benefits. It should aim to track social benchmarks and satisfy intangible interests.

It is in this context that we shall discuss the roots of performance audit as a type (form/sphere) of audit. Unlike, for example, compliance audit or financial audit, the classical model of performance audit does not require error/problem finding; on the contrary, it rather aims to address them, study

their causes and prepare recommendations with a view to improving the ex-ante control system. Therefore, it is absolutely logical for such audits to use fundamentally different methods and techniques compared to other forms of audit or inspection.

***Diana Grosu-Axenti: What are the main features of the performance audit planning process?***

Tatyana Borovkova: First, as I said before, a performance audit is not aimed at problem finding! On the contrary, it is the existence of a problem that drives a performance audit. Experienced auditors know that the more serious, sizable, socially important the “input” problem to be audited is, the higher “added value” the auditors’ “output” recommendations will have. It is well known that “the hardest thing of all is to find a black cat in a dark room, especially if there is no cat”, i.e. it is almost impossible to find a serious problem in the course of an audit if there is no problem! Likewise, it is impossible to make significant improvements in a well implemented activity.

It is an indisputable axiom for all internal auditors that their performance assessment and, hence, the attitude of the entity’s management towards them is directly dependent on the effectiveness of internal audits that they conducted. In case of an internal performance audit, such effectiveness is reflected in the “value added” obtained by the entity through the implementation of the auditors’ recommendations. Such “value added” may be assessed in terms of both tangible and intangible benefits; anyway, it is the materiality of the “value added”, its importance to the management and extent of its positive impact on the entity’s operation that will be of crucial significance.

So, if an internal auditor wants the results of his/her work to be appreciated, he/she should remember that existence of such problem and its clear understanding and definition as early as at the audit planning phase (annual/semiannual planning) is key to the correct selection of the object of internal performance audit.

***Diana Grosu-Axenti: What is a performance “problem” and what are the approaches to identify it?***

Tatyana Borovkova: The answer to the question “What shall be considered a problem and how to identify its causes?” depends on the auditing perspective of the management and the internal auditor. If the internal performance audit prioritizes the management perspective, problem identification should focus on the causes of the problem and the entity’s responsibility for implementing the respective activity; and if the audit prioritizes the stakeholder perspective, it is necessary to focus on the activity implications that are important to the users.

Based on international internal performance audit practice, a list of standard indicators of the most significant performance problems has been compiled to help direct the focus when

selecting the audit object at the planning phase. It includes, among other things, the following indicators:

- A failure to achieve or incomplete achievement of targets or expected results;
  - An unsatisfactory quality and/or level of services provided to users/society;
  - A large number of complaints from users;
- Increased attention from law enforcement/control authorities, institutions, and media;
- A failure to generate planned revenues or meet financial commitments;
  - High costs or unjustified cost changes, inter alia, in the procurement process;
  - Ill-defined performance regulations;
  - Complicated implementation arrangements and/or unclear roles and responsibilities;
  - New functions or significant changes in the operational environment;
  - Lack of reliable, independent and timely updated performance information;
  - Desire of the entity’s senior officer.
  - It is not a final list, and the indicators may be related to these aspects but are not limited to them ...

***Diana Grosu-Axenti: Could you highlight the audit engagement planning phase and the way you organize it, taking into account that your auditors are, in fact, external to the client entity?***

TB: I should say that the correct selection of audit problems and objects at the previous phase (mid-term planning) is, firstly, a necessary prerequisite for a good final result and, secondly, may help (and, hence, significantly reduce time costs) at the preliminary review and audit engagement planning phase.

The preliminary review of the audit object and performance audit planning process is, in its turn, another specific feature of this type of audit.

It is important to distinguish two closely interrelated types of audit review planning:

- Methodological; and
- Administrative.

***Methodological planning*** involves the identification of: audit objectives; audit problems; hypothetical (assumed) causes of the problems; problem research methods; scope of audit techniques and procedures; and, finally, assessment criteria for each selected problem and all hypothetical causes.

***Administrative planning*** includes: addressing the organizational aspects of the process; preparation of the work schedule, labor input plan and audit budget; monitoring of the work progress, etc.

At the end of the phase, the results of methodological and administrative planning shall be reflected in the program/work plan of the engagement.

The audit program/work plan is a specific plan of an audit engagement. The engagement team shall use it as guidelines for conducting the audit.

Therefore, it is clear that to organize and implement a high quality audit it is necessary, first and foremost, to narrow down and clearly define the audit object and then to focus the work on the most problematic zones of the selected object. To that end, the auditor should collect and thoroughly analyze all available information on the audit object.

The audit object may be focused in different ways. Besides, focus narrowing is very closely related to problem identification at the planning stage. If the audit object was selected at the planning stage on the basis of clearly defined risks, it would allow narrowing the preliminary review and significantly reduce its time costs. Problem transformation into audit issues is the first step in the examination of the audit object which is associated with the “audit funnel”. The “audit funnel” concept is used to visualize the audit process and define performance audit limits.

*Diana Grosu-Axenti: What is the essence of concepts such as audit issues, their hypothetical causes, assessment criteria, and audit methods?*

Tatyana Borovkova: Let me start by saying that a preliminary stage such as the identification of audit issues (and the issues of internal audit per se) is the most difficult part. It is at this stage that the internal auditor, based on the preliminary review of all data on the audit object, identifies the so called “risk areas” of the audit object that are later transformed into audit issues.

Next step at the preliminary review stage is to identify the hypothetical causes of the audit issues (“risk sectors”) to be examined in the process of internal performance audit and confirmed or refuted as a result of the audit depending on the presence/absence of respective audit evidence.

Thereafter, it would be logical if the internal auditor or engagement team clearly defines methods to be used to examine each hypothetical cause with a view to its confirmation or refutation and building an evidence base.

The final step at the preliminary review stage includes the identification of clear criteria to confirm or refute the hypothetical causes of the identified audit issues.

It may be both quantitative and qualitative criteria; however, all of them should be reliable, objective, useful and complete.

It is necessary to understand the nature of the assessment criteria selected for the audit; they may be of a regulatory and specific or a more general nature. The assessment criteria may be related to the requirements of regulatory legal acts, regulations and specific objectives or findings expected on the basis of best practices or good examples and indicators. The type and suitability of the assessment criteria are dependent on the specifics of the audit issues and hypothetical causes. As we can see, the use of such approach at the preliminary review stage not only allows a clear definition of problems/issues to be

examined but, in fact, defines the planned scope of audit procedures for each issue and even provides clear criteria for their confirmation/refutation depending on the results of the audit.

It is clear that in the course of examination some audit issues and their hypothetical causes may be refuted parallel to the occurrence of additional issues and causes that were not identified at the preliminary review phase. In some cases, an in-depth and comprehensive study of information concerning the audit object enables the auditor not only to identify audit issues but, in fact, examine the object. In view of the above, it becomes clear why this audit stage is considered the most difficult part of the audit and is therefore time consuming.

*Diana Grosu-Axenti: Could you give a specific example from your practice?*

Tatyana Borovkova: In practice, we often present the results of “methodological planning” as the Audit Design Matrix (ADM) in order to systematize all aforementioned aspects of the preliminary review stage and largely simplify further internal audit process.

For reference: in economics, the term “matrix” means tables used for status diagnostics.

For the purposes of visualization, let us consider ADM using the pilot project implemented by the Ukrainian Ministry of Health as a case study. You can see a detailed matrix in Table 1 on the last pages of the Newsletter.

## **Annual Audit Planning: - The strife between harmony and invention**

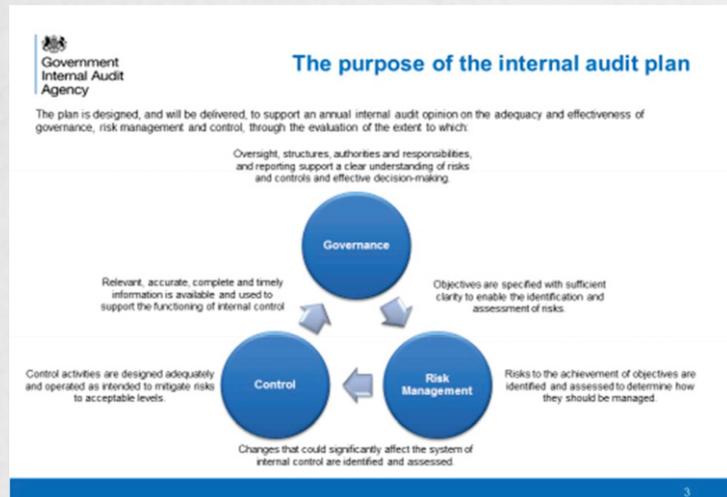


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Having just completed the internal audit plan for 2018-19 I thought I would share my thoughts on the way we did it, what worked well and what we learned from the exercise.

The purpose of Internal Audit (in the UK) is to provide the Accounting Officer with an independent, objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. As Head of Internal Audit, I am responsible for:

- developing a strategy designed to meet the main purpose of the internal audit activity;
- establishing risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals; and
- providing an annual opinion on the adequacy and effectiveness of the organisation's systems of risk management, governance and control.



In accordance with the UK Public Sector Internal Audit Standards (PSIAS), we prepared the plan on a risk basis to enable us to deliver an annual internal audit opinion and report that will conclude on the overall adequacy and effectiveness of your organisation's framework of governance, risk management and control. So how did we do this?



We reviewed the objectives, priorities, strategies and targets, and assessed areas of risk to successful delivery. This included an analysis of risk information and risk registers, where available, and the key projects and programmes being delivered locally / across Defra group

Within Defra we review the management plan(s) for the delivery of the Ministerial targets and business priorities, by getting the latest available detail and reviewing this internally within IA.

We reviewed the findings from our previous work and our knowledge and experience of your business. We have included follow up engagements in the plan where appropriate, based on findings from previous work.

We used the intelligence we had gathered from the completion of previous IA work and recommendations, following up on any areas with a weak control opinion.

We identified and assessed the key activities, systems and processes that manage areas of risk and that are critical to successful delivery of objectives. We also considered placing reliance on the work of other assurance providers to ensure proper coverage and minimise duplication of effort.

This we covered through a combination of internal knowledge and desk instructions, and through discussions with Directors on what they saw as key systems to support their teams.

We engaged widely with key stakeholders to discuss objectives, challenges and risks. This included input from Directors, Executive Team members, Senior Responsible Officers and the National Audit Office.

Our discussions and communications were extensive – there is always value in a dialogue. The discussions allowed us to confirm our understanding, gather additional risk intelligence and gain a greater understanding of what was important to the business.

The main learning points included:

- With senior directors we opened the discussions with 'what do you need to succeed in achieving your 2018-19 objectives?' This open question led to them making connections with key activities, events (to aid the timing of work) and an identification of the support systems (HR, IT etc) that they would rely on.

- Use workshops – we found that getting groups together aided discussions and saved time, and helped to

develop a consensus when agreement was difficult.

- **C o m m u n i c a t i o n**, **C o m m u n i c a t i o n** and **C o m m u n i c a t i o n** – sounds simple but keep this constant, consistent and coherent was critical to engagement, and when required approval/ support for the work.

Overall I lead an IA service across 19 separate bodies with separate governance routes, and one of the main learnings came from comparing the plans once drafted – there were many areas of assurance needed across all the bodies.

In 2018/19 we have further refined the approach, learning lessons from planning and taking account of feedback. The plan has evolved our way of working and we have introduced group and joint audits, defined as follows:

- **Group audit** - one assignment, completed by a single team with one Terms of Reference and one report, covering all 19 bodies. The report is communicated to the whole group. Likely to be used for corporate services topics, but could apply to others. There may on occasions be a need for a management letter for local arrangements.

- **Joint audit** - at least two parts of the Defra business have an audit with a similar scope. Flexibility to be delivered as one audit or separate local reports. Where separate reports are produced, we will produce a 'hotspots narrative' for the systems lead, which aggregates but does not seek to consolidate the findings.

As part of this we also now produce a quarterly 'insights report' which goes to all 19 bodies within the Defra group to share the learning from the audit assignments.

I would welcome the opportunity to host you in London to give you an in-depth look at our planning process.



### **The CHU's Role in Preparing the Annual Performance Report on Internal Audit Units of Public Sector Entities in Tajikistan**

*Diana Grosu-Axenti: Over the last few years, Tajikistan has been an active participant of IACOP activities. It would be interesting to learn what our colleagues could borrow from our experience.*

*I am talking to Mr. Olimjon Mirzoev, a newly appointed Head of the CHU in the Tajikistan Ministry of Finance, member of the IACOP Executive Committee, who kindly agreed to share information on his reforms.*

Olimjon Myrzoev: Pursuant to the laws of Tajikistan, the internal audit function is structured as an independent and objective activity to conduct tests and assessments and advise management and other systems, which is implemented with a view to promoting legitimate, efficient and effective functioning of public sector entities. Pursuant to the Tajikistan Law on Internal Audit in Public Sector Entities, and Standard 2060 of the International Standards for the Professional Practice of Internal Auditing, the chief audit executive must report periodically to senior management.

Therefore, the MoF CHU developed the Guidelines on Preparation of Annual Analytical Report on Internal Audit in the Public Sector to assist the chief executives of internal audit units in drafting the annual analytical report.

### ***Diana Grosu-Axenti: How is the annual analytical report submitted and what data does it contain?***

Olimjon Myrzoev: Drafting of the internal audit report to be submitted to the entity's senior officer is the responsibility of the chief audit executive. Following report approval by the management, the report shall be submitted to the MoF CHU by April 1 of each fiscal year.

The annual analytical report reflects general performance of the IA function and assesses the achievement of the goals formulated in the strategic and annual plans. It also gives summary information on and assessment of the status of the entity's financial management and control system as well as the most important internal audit facts and findings essential for efficient operation of the entity.

### ***Diana Grosu-Axenti: What are the components of the annual report and how is it compiled?***

Olimjon Myrzoev: It should be pointed out that, aiming to provide for a comprehensive analysis in the report, the CHU developed the aforementioned Guidelines with due regard for the following components: introduction; audit plan implementation; audit engagement results; IA findings on internal control system functioning; and proposals and recommendations on IA development.

At present, Tajikistan has 10 internal audit units in ministries and agencies and over 60 internal auditors in the MoF subordinate structures. Until 2018, the CHU accepted the annual report only as a hard copy. In 2017, Tajikistan, with the support from the EU Support to the Public Internal Financial Control in Tajikistan Project and a local IT specialist, established a Digital Program for Submission of Annual Analytical Report on Internal Audit in Public Sector Entities, which largely simplified data reception and processing.

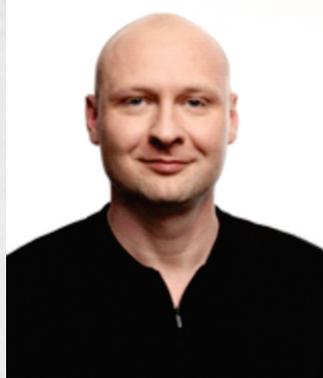
### ***Diana Grosu-Axenti: Who are the users of the report and how do you publicize internal audit performance?***

When assessing total working time, the report evaluates planned IA days as scheduled, instructed by the management and required by law enforcement bodies as well as the annual leave, sick leave, and training (professional development) days.

## Where are you, internal auditors?



**Edit Nemeth,**  
head of CHU, Hungary



**Lukas Wagenknecht,**  
member of the board  
IIA Czech

**Edit Nemeth:** In Hungary staffing has been one the biggest challenges in connection with internal audit recently. During annual reporting on internal audit activity heads of internal audit department of every ministry are expected to report on staff as well. The trend of previous years has been such that the number of active internal auditors has been decreasing. This decline in numbers was reported as a problem, and now it is coupled with challenges in hiring new internal auditors. Fifteen and even ten years ago the problem was that organisations didn't want to have internal audit function. Now the situation has changed: it is not that the organisations don't want to hire internal auditors. but they cannot.

**Lukas Wagenknecht:** Then the real question is where we can find well qualified and experienced internal auditors, and how to attract them or how to create them?

**Edit Nemeth:** Yes. First of all we tried to understand the reasons behind this trend. The most common explanation that we got from heads of internal audit departments was that the qualification requirements were relatively high in comparison to salary (in Hungary there is no difference in salary, internal auditors earn as much as public servants). Some of the respondents indicated that even if they had found somebody and/or has been able to pay a higher salary there would have been be another problem, - lack of knowledge.

Average applicant for the job has a degree in economics or law or public administration but not specific knowledge or qualifications in internal audit. Our training system obliges internal auditors to take exam in one year after their registration by the CHU, not before. Therefore, someone new to internal auditing does not has much opportunity to learn the trade unless he/she is really motivated and willing to pay for education as an investment in the future.

Then we got back to the original problem: being internal auditor in public sector does not really helps to pay off the investment.

There is also a generation gap. Internal auditors are ageing, and it is very hard to attract young people to the profession. In Hungary the notion of internal audit still has a kind of negative meaning or understanding.

### *Lukas Wagenknecht: What kind of trainings and qualifications are available in Hungary?*

**Edit Nemeth:** The Hungarian Institute of Internal Auditors offers some courses on internal audit, but it doesn't give an accredited certification. And of course there are CIA, CISA, CGAP and other qualifications for those who can speak English or a language in which textbooks and exams are available. Unfortunately in Hungary language barrier is a problem, especially among public servants. The Hungarian Institute of Internal Auditors also organise preparatory courses for CIA exam, but it has a rather steep price. Even if somebody willing to sacrifice her/his free time, energy and money for education, yet another issue emerges. When they get their certification, they leave the public sector to private sector which offers a better pay.

### *Lukas Wagenknecht: What the CHU can do about this situation?*

**Edit Nemeth:** Obviously, this problem is beyond the authority of CHU, but there are some things we can do to help the internal auditors:

- Promote the internal audit profession to elevate the common knowledge on internal audit and attract more people to this profession.
- Continuous development of training system according to the needs of internal auditors. In our experience e-learning has not been very effective in teaching internal audit profession and methodology. It is useful to teach definitions or basic things, but in terms of providing practical knowledge it is not effective enough. That's why in the course of the last three years we have introduced new modules (risk management, risk-based audit planning, process management, value for money audit) to our training system; the modules focus on how-to's, and trainees learn through case studies and practical tasks. It seems to be working well but not all organisations provide internal auditors a leave of absence for 2 days to take the training when e-learning is available as an option. We are planning also to introduce new modules such as engagement planning and reporting because these two topics are the weak points according to the annual internal audit activity reports.
- Make proposals to the government to provide additional allowance to internal auditors' salary.
- Help public budgetary organisations in the hiring process to ensure a better reach of potential applicants. – In Hungary

we created a Forum called BEMAFOR (Forum of Hungarian Internal Auditors) which provides free newsletter, free workshops and also a direct information channel to almost 1,000 internal auditors (In our register there are around 2,500 internal public sector auditors; however, the registration doesn't mean they actually work in the public sector, - it only means they could work as internal auditors in the public sector). Anyone in the register can apply for membership, it is free, and it is up to the person if she or he is interested in membership. If a head of internal audit unit or head of organisation sends us an e-mail about the job offer we forward it to every member of BEMAFOR.

- Cooperate with Supreme Auditors in common trainings and experience exchange.
- Cooperate with the national chapter of IIA or other professional institutions – In Hungary we have a Professional Cooperation Agreement with the Hungarian Institute of Internal Auditors.
- Cooperate with Universities to add knowledge on internal audit to their education program or support them to establish accredited qualification programs e.g. MBA or other courses for internal auditors. – In Hungary there is cooperation as I (as the head of the CHU) give lessons on public internal control to bachelor's degree students of the University of National Public Administration; also I give lessons on public internal control and risk management to integrity advisors' post-graduation course.

#### *Edit Nemeth: What is the situation in the Czech Republic?*

**Lukas Wagenknecht:** Talent and resource management seems to be the biggest challenge that profession of internal audit in the Czech Republic has to face. Currently, the Czech Institute of Internal Auditors (chapter of IIA) has around 1,100 members working in both private and public sector.

We are living in very dynamic environment, and as auditors we have to address and manage also the risks having impact on our audit strategy and look into the future.

One of the risks that can be sometimes overlooked is inadequate competency or lack of qualified staff. We must be agile enough to recognize gaps in our capabilities and close them quickly. Despite the fact that there can be enough skilful internal auditors for the moment, it is necessary to attract and foster new talents that will be able to address new emerging risks (like cyber security) or analyse big data. Acquiring new talent in the marketplace is not as easy as it could seem. Especially now when the competition for such talent can be intense.

#### *Edit Nemeth: What solutions have you found?*

**Lukas Wagenknecht:** This topic has been heavily discussed during the meetings of the Board of the IIA Czech in the last few years. It has been decided to establish the Club of Young Internal Auditors. But my idea was broader. I wanted to start

promoting profession of internal audit at the universities, and suggested to create a new subject –“Internal Audit”. With support from the Board of the IIA Czech I addressed deans of two universities (University of Economics, Prague and University of Pardubice). Both found my idea as a great opportunity to start the cooperation with IIA and link theory with practice. We agreed to launch the new subject:

- Internal Audit (for private and public sector) at the University of Economic of Prague;
- Audit and Control in the Public Sector (70 % of the subject focused on internal a

#### *Edit Nemeth: How the students can benefit from it?*

**Lukas Wagenknecht:** As per certification procedure we needed to create a syllabus of the subject. As a part of cooperation between the Universities and the Czech Chapter of IIA, it was also offered to students to benefit from:

- free entry to IIA Czech library;
- discount for IIA Czech training courses and certification;
- internships for the students.

#### *Edit Nemeth: What is the content of the new subjects?*

**Lukas Wagenknecht:** Syllabus for master's degree students consists of these topics:

- Corporate governance and Good Governance;
- COSO framework;
- three lines of defense model;
- Risk management and assessment;
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- Regulatory Framework for Internal audit;
- The mission, Definition of Internal auditing, Core principles, Ethical code and IIA standards;
- Internal audit strategy, Independence and Objectivity, IA charter;
- Annual planning based on risk assessment;
- Managing the Internal audit activity;
- Audit methodology;
- Assurance mapping and Red Flags (related to fraud detection).

**Edit Nemeth: It sounds very interesting and promising. What are the first experiences?**

**Lukas Wagenknecht:** After one semester I can briefly evaluate our effort. We brought the attention of 50 students to the Internal Audit profession. Several internships have been placed thanks to this mutual cooperation. The greatest news is that both Universities value this cooperation and want to continue.

**Edit Nemeth:** How the students responded to these new subjects?

**Lukas Wagenknecht:** Feedback from students has also been very positive. They find the subject interesting and useful for their future careers. The knowledge about governance, risk management and internal controls they acquired can come in handy at any future job irrespective if it is a position of internal auditor or any other.

Table 1

AUDIT MATRIX												
AUDIT ISSUES / HYPOTHETICAL CAUSES	DATA COLLECTION METHODS										ASSESSMENT CRITERIA	CONTR. MED. / NOT CONTR. MED.
	Analysis of statistics and reporting data	Analysis of regulatory legal framework	Document test/analysis				Interview		Survey of patients' records			
Ukrainian			SE	Health institutions	Ukrainian	SE	Health					
<p><b>Issue 1: Gaps and mistakes that occurred during the preparation of the Budget Program section under review prevent implementation of the key principles of performance-based budgeting defined in Article 20 of the Ukrainian Budget Code and limit opportunities for monitoring, analysis and assessment of the degree of achievement of government priorities in this field formulated in the National Program of Government Priorities</b></p>												
1.1. The goal stated in the Budget Program Data Sheet for the areas under review is not fully consistent with the policy goals and priorities in the field formulated in the National Program, and therefore, a number of activities to prevent children's	√	√									Mismatch between the goals formulated in	+

disability are left out												the Budget Program and the National Program	
1.2. Objectives of this section of the Budget Program and the uses of funds do not help identify a list of specific activities but rather narrow down the goals formulated by the state reducing them to procurement of drugs and medical products	√	√										Absence of specific activities and task implementation stages in the Budget Program	+
1.3. Performance indicators in the field under review do not reflect the degree of stated goal achievement and, therefore, cannot be used for performance assessment of this section of the Budget Program as required by Article 20 (items 5-6) of the Ukrainian Budget Code	√	√										Mismatch between performance indicators and MoH Executive Order # 1536	+
1.4. Every year, approved budget allocations/outlays cover only about 35 percent of the needs estimated by the MoH; however, the section of the Budget Program under review is fully implemented. This, in fact, negates the need to have reliable estimates of required funding and questions their accuracy	√	√				√							+
1.5. Considerable delays in the delivery of budget funds allocated for the Budget Program section under review result in 3/4-fold reduction of the share of the reporting budget period remaining for implementation of the respective activities. Though the trend has a systemic (annual) nature it is NOT taken into account by specific performance indicators, which brings about the risk of a permanent failure to implement the Budget Program in terms of such indicators				√			√						+
1.6. Gaps and mistakes that occurred at the preparation stage limit opportunities for monitoring and assessment of the degree of achievement of government priorities in the field under review as formulated in the National Program of Government Priorities	√	√											+
<b>Issue 2: Incorrect / unjustified estimate of the actual need for drugs in Ukraine as a whole and in specific regions and health institutions has an adverse impact on goal achievement</b>													
2.1. Absence of a unified procedure to develop, maintain and use the e-Register of children with hemophilia is an underlying cause of incorrect and/or unjustified estimates of the need for drugs	√	√	√					√	√	√		Absence of a unified procedure Varying data on the number of sick children in different sources	+
2.2. Inadequate public awareness about hemophilia (especially among the parents of children with hemophilia) has an adverse impact on modern diagnostics, complicates the treatment process and prevents sick children from timely registration for regular medical checkups, which leads to incorrect estimates of the need for drugs									√	√		1 case when the disease was diagnosed after the first bleeding	+
2.3. A limited amount of diagnostic equipment and a shortage of reagents causes delays in the required treatment and late registration of sick children for regular medical checkups as a result of which such children are not (fully) taken into account when estimating the need for drugs								√		√		Absence of diagnostic equipment in more than half of the regions	+
2.4. Errors in need estimates caused by the fact that balances of drugs are not taken into account							√					1 case	-
<b>Issue 3: As a result of delays in tendering, distribution of drugs and their delivery to health institutions children with hemophilia receive drugs rather late which, in its turn, has an adverse impact on general quality / timeliness of the treatment process</b>													
3.1. Delayed procurement of drugs results in their delayed distribution between regional health institutions	√	√	√									1 case of delayed procurement (more than 1 month after the allocation of funds)	+
3.2. Delayed distribution of drugs causes delays in their delivery to health institutions	√								√			1 case of delayed distribution (more than 7 days after the receipt of drugs)	-
3.3. Delayed delivery of drugs means that health institutions do not have timely supplies of drugs required to treat children with hemophilia				√					√			1 case of delayed delivery	-
<b>Issue 4: Lack of (weak) mechanisms in the Ukrainian MoH preventing an adequate control of drug inventory and procedures for interaction (feedback) with end users (children with hemophilia) and/or their parents may lead to violations/corrupt practices relating to the use of these drugs and cause user dissatisfaction</b>													
4.1. Absence of a unified and clear legislated procedure for inventory, use and write-off of anti-hemophilia drugs (with an effective write-off confirmation mechanism)	√									√		Absence of a unified procedure Absence of confirmation mechanisms	+
4.2. Lack of (weak) feedback between the Ukrainian MoH and end users (sick children) or their parents; and a low level of user satisfaction	√									√		Absence of feedback Low	+
												assessment of treatment level by sick children's parents (over 50 percent of parents)	

Ms. Diana Grosu-Azenti, Editor-in-Chief, and Ms. Arman Bekurova, the leader of the newspaper, would like to express their gratitude to all the authors for their efforts and willingness to share their experience and knowledge with colleagues, and encourages all IA COP members to try their hand as contributors.