



Why internal audit?

- Raising awareness of the role of public sector internal audit -

PEM-PAL

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Workshop*

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Advantages of IA 1.

- they have best knowledge of organization
- activity & reports are not public (confidential issues can be analyzed)
- presence and knowledge is constant (not occasional)
- *cheap* – produces (if operated well!) by far greater „profit” than its costs (wages vs. money saved/recovered)
- highly developed methodologies are available (internationally tested and practiced)
- public trust is more important at PBOs than companies ← well functioning ← good internal controls ← good internal audit



Advantages of IA 2.


- inspection concern regularity → ← audit concern efficiency!
- inspection discovers one wrong invoice → ← audit discovers the system weakness responsible for *all* wrong invoices
- added value is much higher in case of audit
- you can't name someone other than the internal auditor who has good knowledge of all (most of) activity areas of the organization (many-many polymaths like Leonardo da Vinci)
- ❖ condition: functional independence! (planning, reporting, no political influence or fluctuation) *can be problematic*
+ suitably equipped *can be problematic*



Advantages of IA 3.

IA opens up new vistas/perspectives, like
Value for Money audit:

$$\frac{\cancel{\text{input}}}{\text{€}} \times \frac{\cancel{\text{output}}}{\cancel{\text{input}}} \times \frac{\cancel{\text{outcome}}}{\cancel{\text{output}}} = \frac{\text{outcome}}{\text{€}}$$



Economy Efficiency Effectiveness Value for Money



Change in attitude

| | | |
|-------------------------|---|--|
| internal „enemy” | → | internal consultant <i>(assurance + advice; service to management)</i> |
| checking invoices | → | assessing internal controls <i>(“3E”)</i> |
| regularity audits | → | system audits |
| ex-post „investigation” | → | also a preventive tool <i>(recover money)</i> <i>(money isn't lost)</i> |
| different methods | → | mostly risk based |
| finding errors | → | making recommendations |
| strictly financial | → | all activities |



Head/management of organisation

Part I: Problems

- 👉 I don't understand internal controls/internal audit
- 👉 I don't need internal controls/internal audit
- 👉 I don't want to give money for internal controls/internal audit
- 👉 I don't want to be controlled/audited



Head/management of organisation



Part II: Goals

- IA should be Nr. 1. assistant to Head (principle of mutual trust)
- acknowledgment: responsibility of auditor, CHU and Head
- IA must WIN/PERSUADE management
 - management must understand that they have same interest
- management should have regular contact with IA
- IA supports good governance
- IA strengthens „value for money” ratios
- training of management (based on law...) on controls, audit is essential! (Hungary: PIFC Methodological and Training Centre)



„Marketing”

In order to get management's commitment:

- involve them in planning (*what do you want?*)
- explain them the plan (*why this and that*)
- make short but crystal clear reports (*they don't have time*)
- offer them clear choice (*this is what you win, this is what you lose if you do/don't do this*)
- management shouldn't just endorse/undersign documents – they must understand it
- money is always priority...
- emphasize positive/negative results
- give them valuable consulting help (e.g. assisting in elaboration of rules of procedures)



Internal Audit in Hungary

☞ Before accession, heavy criticism by EU

Efforts taken:

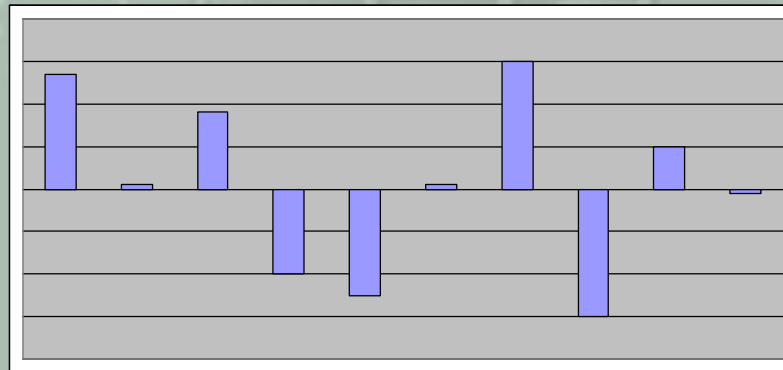
- ✓ Strategy (Policy) Paper
- ✓ Public Finance Act (primary legislation)
- ✓ Internal Audit Decree (secondary legislation)
- ✓ Methodological guidelines (tertiary)
 - Manual, Charter, Code of Ethics, audit types etc.
 - IA activities are based on IIA standards
 - mixed system (decentralized + GAO)



IA respect in Hungary

I. Before accession: development was a must

II. After accession, respect of IA was heterogeneous:

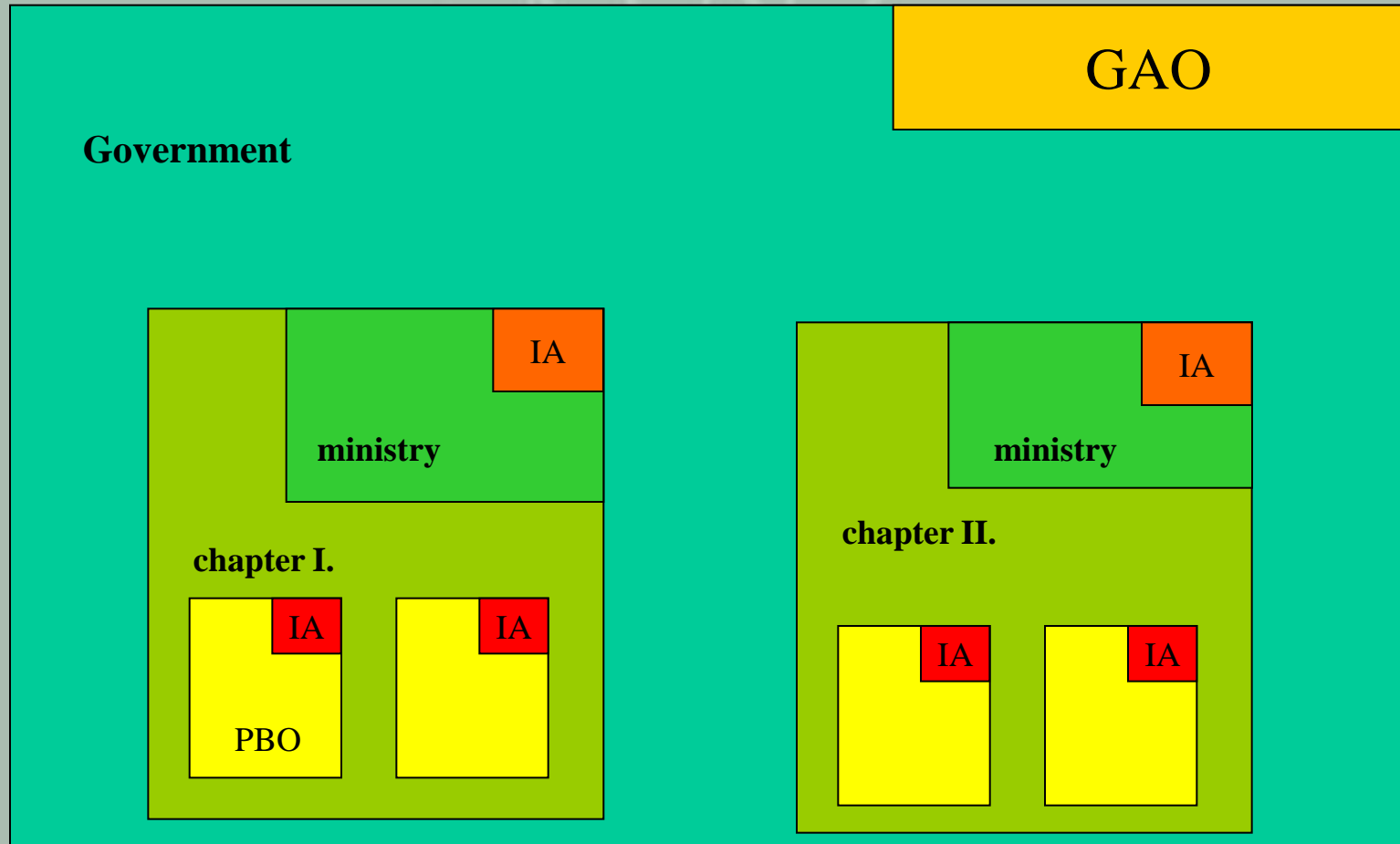


Change in IA staff number of ministries (only schematic)

III. Hungarian special institution: Government Audit Office,
which makes internal audit in the whole government



Hungary's commitment to IA



The IA of the PBO audits the PBO; the IA of the chapter ministry audits the chapter (incl. Ministry and PBOs); the GAO audits the whole government (incl. chapters, ministries, PBOs).



Internal Audit in Hungary: Experiences

- a pool of experts is available who „have been through” everything: changes of institutional structures & legislation
- „new” IA should profit from „old” methods → no direct cut but a smooth transition
- IA’s double face like God Janus:
 1. „*internal jailer*” - more discipline by managers, heads of PBOs
 2. „*guardian angel*” - you need someone to look after/warn you (self-control)



Private sector solutions in internal controls

Sarbanes-Oxley (SOX), SAP, ...

- don't deny them
- don't copy them

- adapt the best practices



Thank you for your attention!

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Topics for discussion

1. What are the advantages of the „new” system according to your experiences?
2. What can „David” internal auditors do to persuade „Goliath” government?
3. How can real independence be achieved?



Abbreviations

CHU: Central Harmonization Unit

GAO: Government Audit Office

IA: Internal Audit

IIA: Institute of Internal Auditors

PBO: Public Budgetary Institution

PIFC: Public Internal Financial Control

„3E”: Economy, Efficiency and Effectiveness