

# PIFC

## Public Internal Financial Control

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# What is PIFC?

- Comprehensive concept and strategy to improve the quality of public internal control. It combines the principles of:
  - managerial accountability, reflected in adequate Financial Management and Control (FMC) systems,
  - decentralised, functionally independent, internal audit (IA)
- Harmonisation and co-ordination of the concept is in the hands of a central harmonisation authority (CHU)
- We have 4 development stages: conceptualisation; legislation, administrative reform, training

# PIFC: Financial Management and Control (FMC) 1

## Responsibility of the manager:

Manager is responsible for income/spending but also for sound financial management

For setting and achieving of objectives;

For financial management and control system; reduce important risks to “reasonable” level;

For objective risk analysis and risk management;

Rulebooks (manuals) including “audit trails”

Internal audit units (establish, protect its functional independence, follow-up on material audit recommendations)

Report on the realisation of objectives (internally and externally)

# PIFC: Financial Management and Control (FMC) 2

## Financial Management and Control covers:

- **Planning, programming, budgeting and accounting, controls**
- **National and international funds (income and expenditure, assets and liabilities);**
- **Budget allocations, commitments, tendering and contracting procedures, disbursements, recovery of unduly paid amounts;**
- **FMC covers ex ante and ex post controls (including technical inspections) based on separation of duties (double signature: authorising officers, controllers, accountants), project monitoring, corrections, etc.**

# PIFC: Public Internal Audit

## Prime tasks of the internal auditor:

- **Make the manager understand the added value of internal audit: relation of confidence and trust;**
- **Functional, not total independence – IA Charter;**
- **Assess the functioning of the FMC systems and make recommendations;**
- **Show highest degree of objectivity, integrity and professionalism (Code of Ethics);**
- **Advise manager to (better) achieve objectives, but take no managerial responsibility**

# PIFC: Audit and Inspection

- **There is reason to split the functions of audit and inspection (different objectives):**
- **The auditor:**
  - Assesses FMC systems in objective, professional and regular way to raise transparency
  - Makes recommendations to manager to improve FMC systems
  - Helps the manager to ensure compliance with laws/regulations
  - Adds value to improve the operations of the manager (E-E-E)
  - Not responsible for financial management
  - Is rather fraud preventive than fighting/punishing fraud/corruption
- **The inspector (ex post verification)**
  - Is transaction and penalty oriented;
  - Reacts on complaints from third-parties
  - Performs investigations to fight against fraud and corruption

# PIFC: Status Internal Audit

## **Internal Auditor reports to highest management level (to Minister):**

- Internal Audit Charter (describes relation with management)
  - Nomination, transfer, dismissal (in agreement with CHU/MoF)
  - Adequate resources and salaries
- **Freedom to establish:**
    - Strategic audit plan and annual audit plans based on objective risk assessment (possibility of making ad hoc audits)
    - Management endorses audit plans
  - **Free reporting of audit findings:**
    - Contradictory procedures with management
    - Follow-up procedures for management
    - Audit reports sent to management (and to CHU if needed)
      - Central register of material audit findings

# PIFC: Lessons from the past

- **What did we learn from PIFC experience?**
  - Public internal audit can only be developed in wider framework of Internal Control (PIFC);
  - MoF to be the owner of the PIFC project (you guide the process);
  - Create platform for discussions (create CHU);
  - MoF should have a solid strategy (PIFC Policy Paper) introducing international standards; PP provides for long term commitment of the government; when needed; update!
  - Benchmark progress over time towards international standards
  - Long term horizon of the project, select experienced expertise and do not hurry legislation until well understood



# PIFC: Central Harmonisation (MoF)

- Involved in conceptualisation/law drafting, later in harmonising and co-ordinating standards and guidelines;
- Motivates and promotes best practice;
- Takes care of networking (internal/external) and public relations
- Determines needs for training of all stakeholders;
- Makes assessments of the follow-up of its guidelines and standards to clients;
- Prepares annual PIFC progress report to Government
- Good co-operation with the SAI

# PIFC: FMC/IA/Inspection laws

## – On law drafting:

- Mobilise relevant stakeholders in WG: main spending centres, SAI, Ministry of Justice (for special status of auditors in the civil service Act), other relevant actors like State Ministry;
- Make sure that the relevant acts are well linked together and comprehensively linked to the budget act, accounting act, procurement act, civil service act, etc.
- Several ways to structure the laws (Framework Law, Implementation Laws, decree or directives, handbooks etc.):

# PIFC: Training

**Training should cover not only auditors and financial officers, but also managers;**

**Comprehensive curriculum for internal auditors (best practices, applied auditing, interpersonal skills, governance, risk management, accounting and financing, IT); skills in financial auditing; systems-based audits; in later stage the more complicated performance auditing);**

**Proper certification procedures;**

**Creating a coherent public internal audit profession, so that auditors do not function in isolation**

# Questions for assessing PIFC

- Comprehensive policy framework?
- Separate Internal audit and inspection?
- Comprehensive policies for internal control and for internal audit?
- Is there central harmonisation?
- Unity in (sub)-delegation procedures, segregation of duties, comprehensive legislation, procedures?
- PIFC in line with international standards and EU best practice?

# DG Budget recommendations

1. **Commitment from the government to embark on PIFC development for a long term project (up to 6-8 years);**
2. **Co-operation between MoF and DG Budget (regular contacts);**
3. **Create a CHU and a platform (working group) to make an overall analysis of the PIFC systems, leading to comprehensive policy recommendations (PIFC Policy Paper);**
4. **Develop realistic Action Plan and devise Key Performance Indicators for benchmarking progress;**

# DG Budget recommendations

- 5. Draft adequate legal basis (Laws for FMC systems, Internal Audit, Inspection);**
- 6. Establish decentralised internal audit units (where needed); assure functional independence and harmonisation by CHU;**
- 7. Start training schemes for managers, Financial controllers and internal auditors.**

DG Budget would suggest:

- TACIS-support for developing PIFC Policy Paper and Action Plan for 2007
- To be followed by broader ENP programme as of 2008

# PIFC: More information

- **1. Welcome to the world of PIFC**
  - See distributed welcome pack
- **2. Access to the FccWebsite**
  - [budg-fccweb@ec.europa.eu](mailto:budg-fccweb@ec.europa.eu) (for passwords)
- **3. PIFC: a European Commission initiative to build new structures of public internal control in applicant and third-party countries by Robert de Koning (February 2007)**
  - [www.pifc.eu](http://www.pifc.eu)
- **4. Further information**
  - [budget-b03@ec.europa.eu](mailto:budget-b03@ec.europa.eu)
  - [robert.de-koning@ec.europa.eu](mailto:robert.de-koning@ec.europa.eu)
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