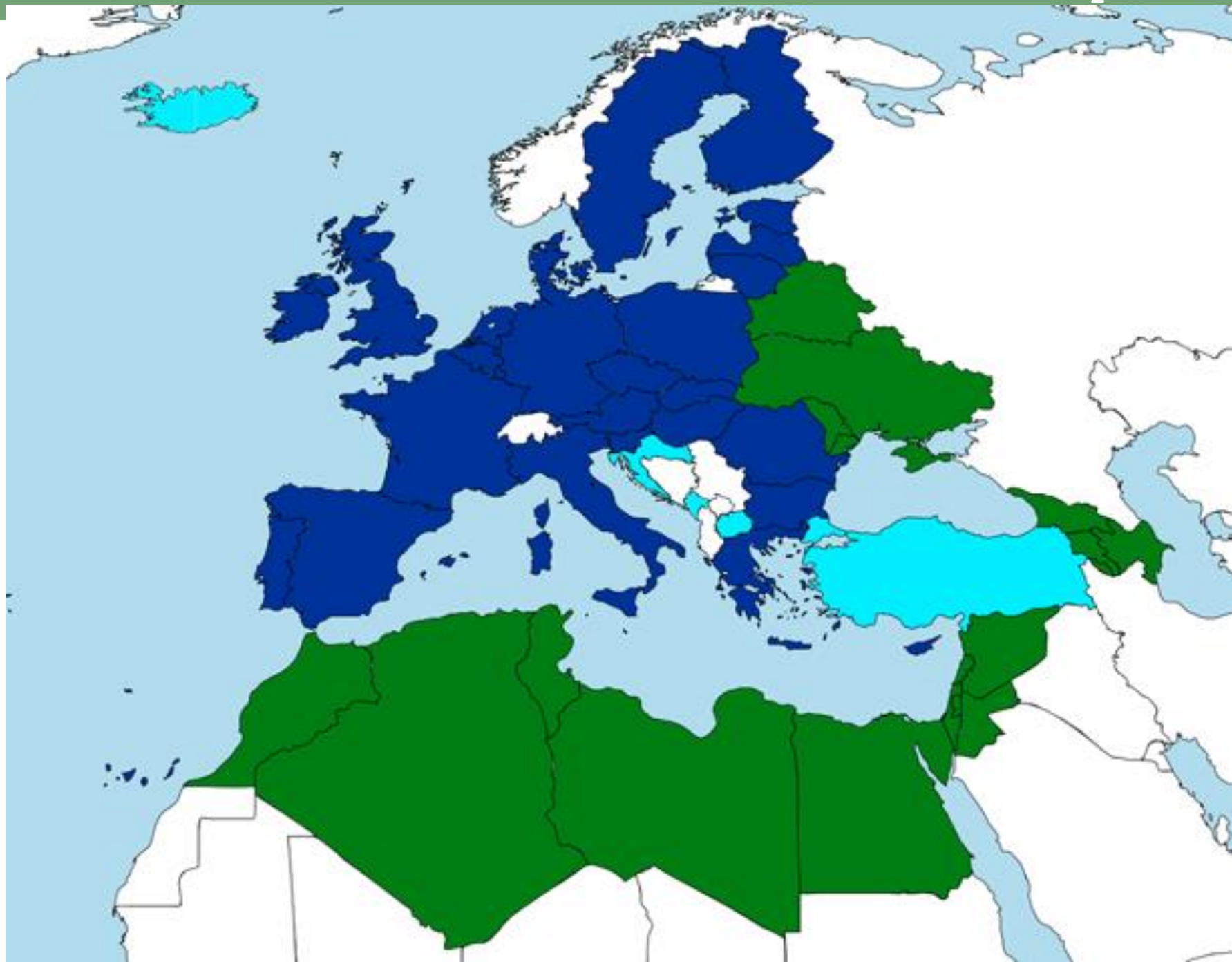




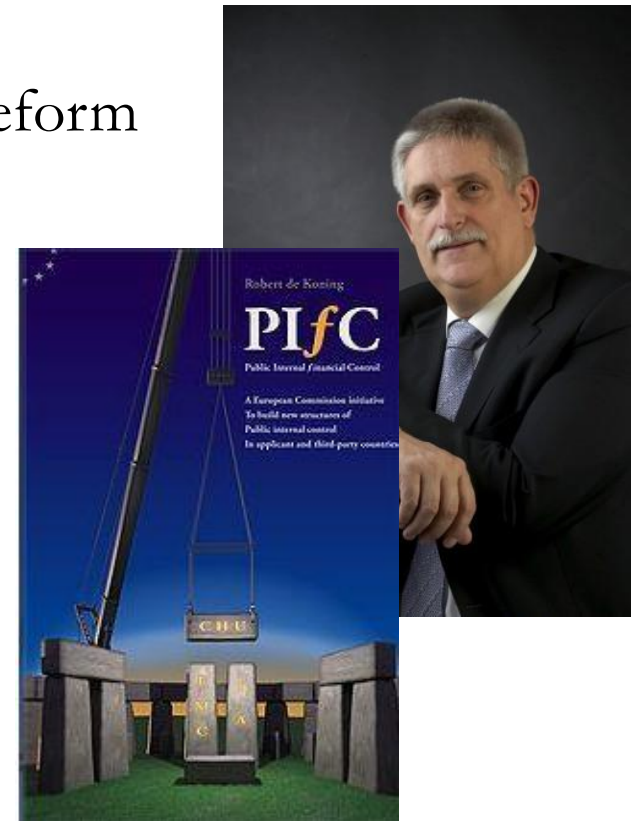
PUBLIC INTERNAL FINANCIAL CONTROL REFORM IN GEORGIA

Nino Eliashvili
April 2012



Preconditions

- 2004 – ENP European Neighborhood Policy
- 2007 – PFM Public Financial Management Reform
 - Internal Control among PFM Reform
- 2007 – in EU, DG Budget –PIFC Model
- Support Program from EU
- 2009 – PIFC Policy Paper



First Steps

Advantages

- Was Built CHU Capacity
- Raising awareness of future CHU members
- Policy Paper
- Law on IA and Inspection
- Establishing in 12 Ministries IA

2008

2009

2010

2009

2010

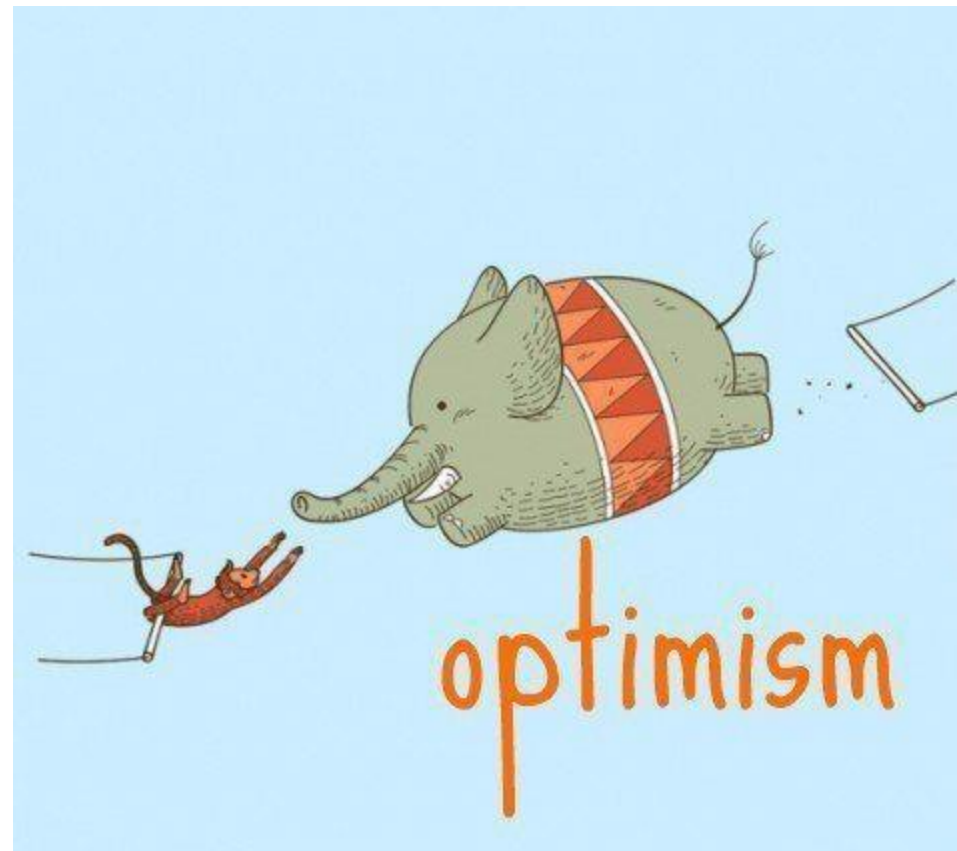
2010

Disadvantages

- Was build in Inspection General (IG)
- Focus on CHU, involvement of High-Level Management was needed
- Transform IG into IA
- Mixed functions
- On basis of IG, was not necessary in 12

Background

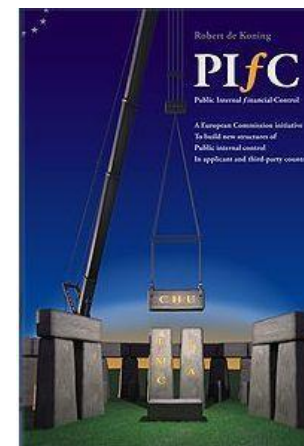
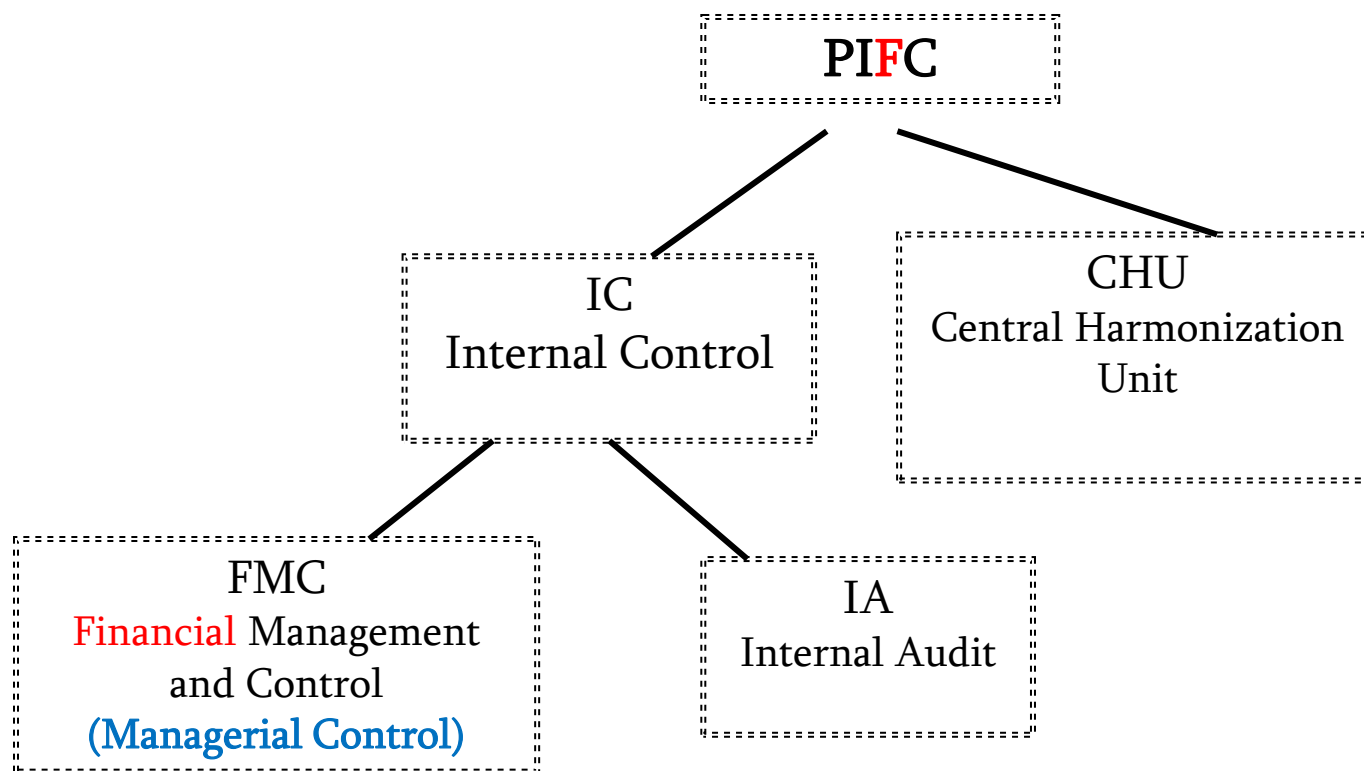
- **Obligation:**
To Build Internal Audit System
 - **Reality:**
Low Awareness among high level Management in Georgia
 - **Decision:**
Combine IA and Inspection
- Plan:**
Optimistic and Ambitious



Legislation

- 2010 - initially Law on
“Internal Audit and Inspection”
- 2011 - PIFC Law
Provisions for
 - Internal Audit
 - Financial Management and Control
 - Managerial Accountability
 - Central Harmonization Unit

PIfC Law



By DG Budget
Robert De Koning **PIfC** (*Public Internal financial Control*)

Internal Audit System

Decentralised IA system

Covers in the public sector:

- ✓ 12 Ministries (except 4 law enforcement ministries)
- ✓ 5 Autonomous Republics of Adzharia
- ✓ 5 Autonomous Republics of Abkhazia
- ✓ 5 Municipalities in Adzharia
- ✓ City hall

approx.

- 28 Internal Audit Units
- 140 Internal Auditors
- 90 Internal Auditors in Ministry

Internal Audit System

- Difficult to distinguish how many inspectors and how many auditors exactly exist
- In 12 Ministries:
 - ✓ Male 73%
 - ✓ Female 27%
 - ✓ *All Heads of LAU are Male*
- 40 % former Inspectors
- 50% are working from 4th quarter of 2012, majority former external auditors

Criteria for IA Independence

- Structural
- reports to the Head of entity
- No intervention in audit process
- No managerial or operational tasks
- Right of free access on documents
- Annual Plan is approved/ endorsed by the Head of entity
- Provisions in legal framework and IA Charter

Is missing:

- Guarantees for staffing procedures
- Audit Committee

Internal Audit System

IAU TASK:

to contribute to achieving the objectives of an organisation through an assessment of the risk management and internal control

- 5 Types of Audit (Compliance, Financial, Performance, System-based, IT)
- Before 2013 only Compliance and Financial Audit
- Average 4 audit engagement per year

Functions of CHU

- **Harmonize Internal Audit:**
 - Methodology
 - Trainings and Certification Program building
 - Coordination and assistance of Internal Auditors
- **Harmonize Financial Management and Control:**
 - Assist establish FMC
 - Raise awareness
 - Prepare Methodology/ Guidelines
 - Trainings
- Benchmarking
- Monitoring the development of Reform

Started from 2013

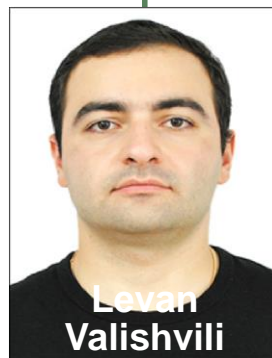
CHU

- **History of CHU:**

- 2010 May - LEPL “ National Centre for State Internal Control”
- 2011 Oct. - Internal Audit Council
 - ✓ **Chair** – Minister of Finance
 - ✓ **Members**- Heads of Internal Audit Unit
 - ✓ **Secretariat**= acting as a CHU= IA Harmonization Unit under Internal Audit Department

CHU	2010	Until Aug 2011	Until June 2012	2013
Number of Staff	20	2	3	5

CHU

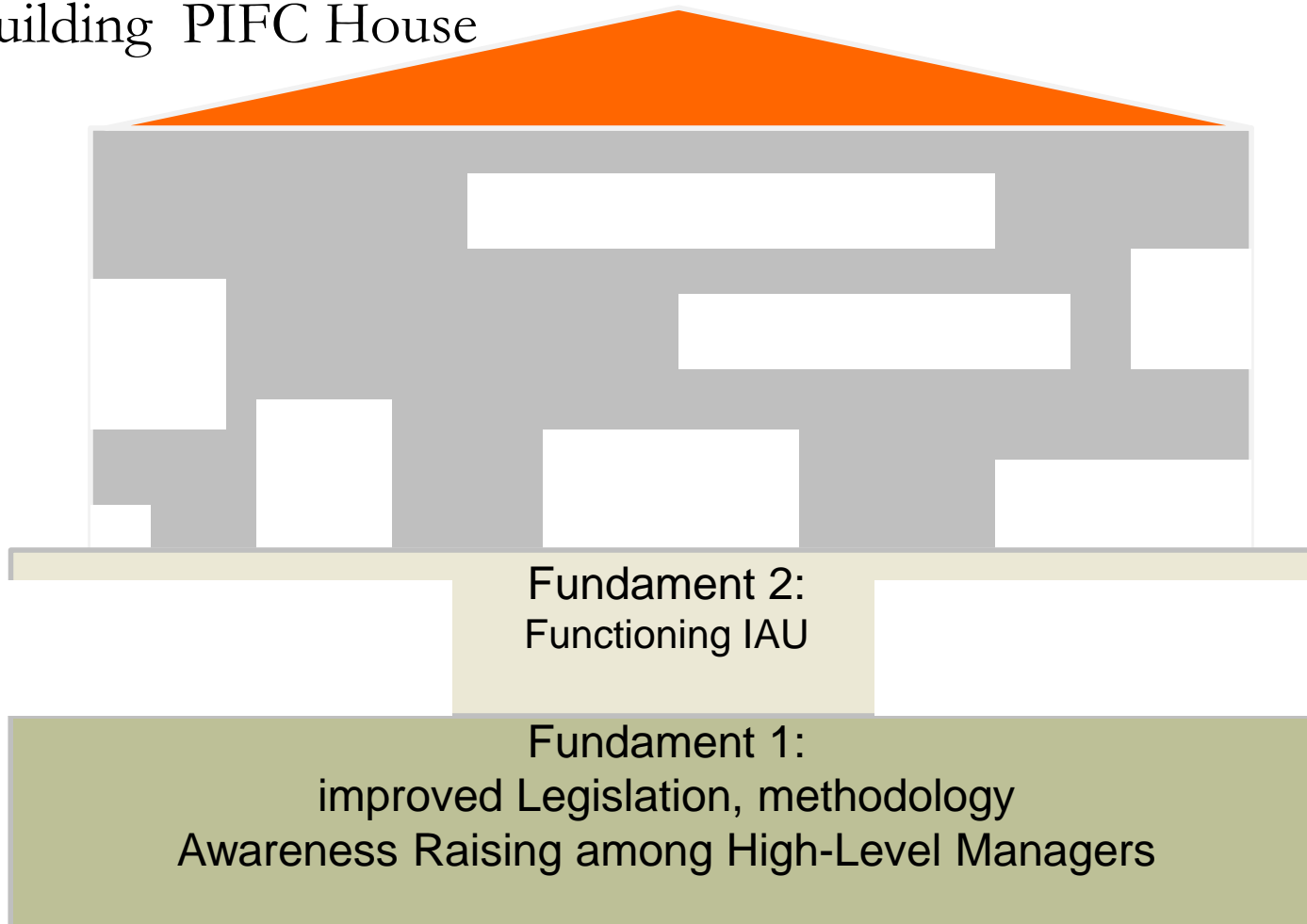


- **PLANS:**

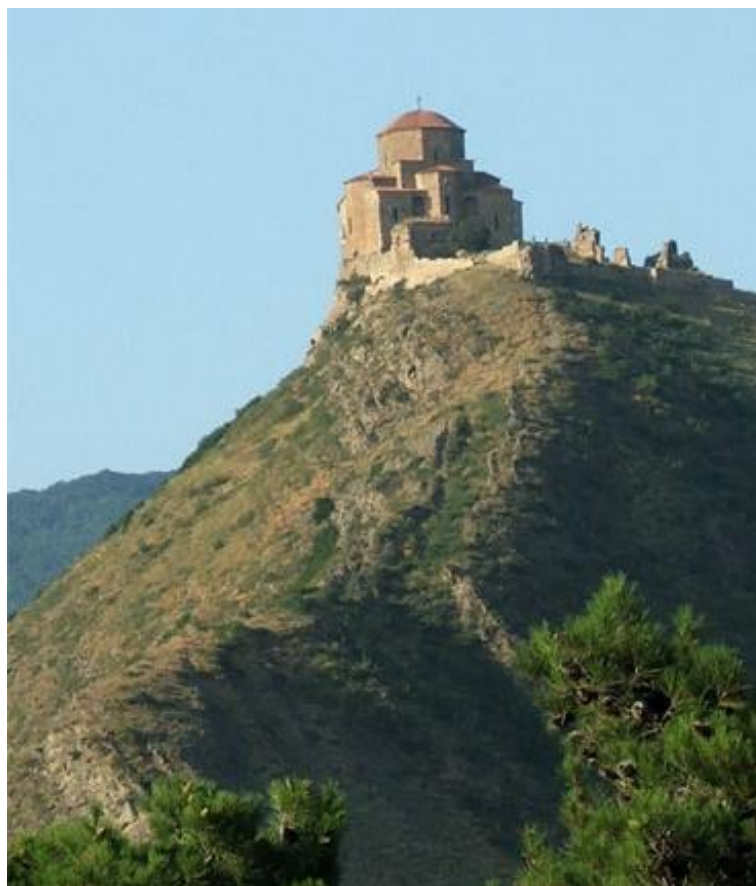
- To raise independence and capacity of CHU
- Build Consultative Council for IA and FMC

Important

- In Building PIFC House



Aim



Jvari monastery of the 6th century near Mtskheta

Achievements

- Improve Law and methodological documents
- Build positive and professional relations with internal auditors
- CHU is accepted and requested function for IAU's
- Awareness Raising among High-level Management
- Build contact persons in IAU
- Build local recourses



Achievements

- “LET THEM TALK”
- Marketing Concept's
 - One day training within IAU
 - Small presentation for Managers



- Risk Assessment Implementation
- Build wider relation with international colleagues (Thank PemPal)

Achievements

- Data-Base for CHU of Internal Auditors
- Special Web-site of PIFC Reform,
 - Info about Reform, CHU, Legal Acts, Methodology
 - Internal Audit Units
(Charters, Function, History of Creation ...)
 - Info and News

The screenshot displays the website for the Internal Audit of Georgia. At the top, there is a search bar and a language selector set to 'English'. The main navigation bar includes links for 'თავარი' (Home), 'ჩვენს შესახებ' (About Us), 'კანონმდებლობა' (Legislation), 'აუდიტის სუბიექტი' (Audit Subject), 'სიახლე' (News), 'სასაარგებლო' (Useful), and 'ბმულები' (Links). The main content area features a news article titled 'ჩვენი მიზანი' (Our Goal) with a sub-headline 'ხელი შევუწყობთ ეფექტური და ეფექტიანი შიდა კონტროლის სისტემის ჩამოყალიბებას საჯარო სექტორში' (We will help form an effective and efficient internal control system in the public sector). To the right, there is a photo of a meeting and a news item dated 17-აპრილი-2013 titled 'Pem-Pal-ის მორიგ შეხვედრას საქართველო უმასპინძლებს' (The next Pem-Pal meeting will be held in Georgia). Below this, another news item dated 26-მატი-2013 is titled '3 წელი საჯარო სექტორში სახელმწიფო შიდა ფინანსური კონტროლის სისტემის დანერგვიდან' (3 years since the implementation of the internal financial control system in the public sector).

Challenges

- High **Rotation**
- constant need of **Trainings**
- **CHU** capacity and independence
- **Profession:** Public Internal Auditor isn't popular in Education system
- **Image/ Reputation/ Privilege** of Internal Audit function in Public Sector
- **Awareness** of the Head of Entity



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