



Ministerstwo  
Finansów

# Introduction to Poland's Public Internal Control

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# Visit agenda day 1

09:00-09:20	Welcoming party
09:20 – 10:45	<b>Session No. 1 PIFC in Poland</b>
10.45-11.00	Break
11:00-12:30	<b>Introduction to assessment of internal control quality Model 2002 – 2006</b>
12:30-13:30	Lunch break
13:30 – 14:45	<b>Model 2007 – 2011</b>
14.45 – 15.00	Break
15:00 – 16:00	<b>Model 2012</b>
16:00 – 16:15	<b>Q&amp;A session End of visit day 1</b>

## Visit agenda day 2

09:00-10:45	<b>Meeting outside of the Ministry of Finance - Practical experience on assessment of internal audit quality</b> (specific examples of the Program for internal audit quality assurance and improvement)
10:45 – 11:00	Break
11.00 - 12.30	<b>Afternoon session</b>
12:30 - 14:00	Break Return to the Ministry of Finance Lunch
14:00 – 16:00	<b>Conclusions</b> Q&A session Discussion on possible future collaboration
16:00 – 16.15	<b>End of study visit</b>

# Session No. 1

## Public Internal Control

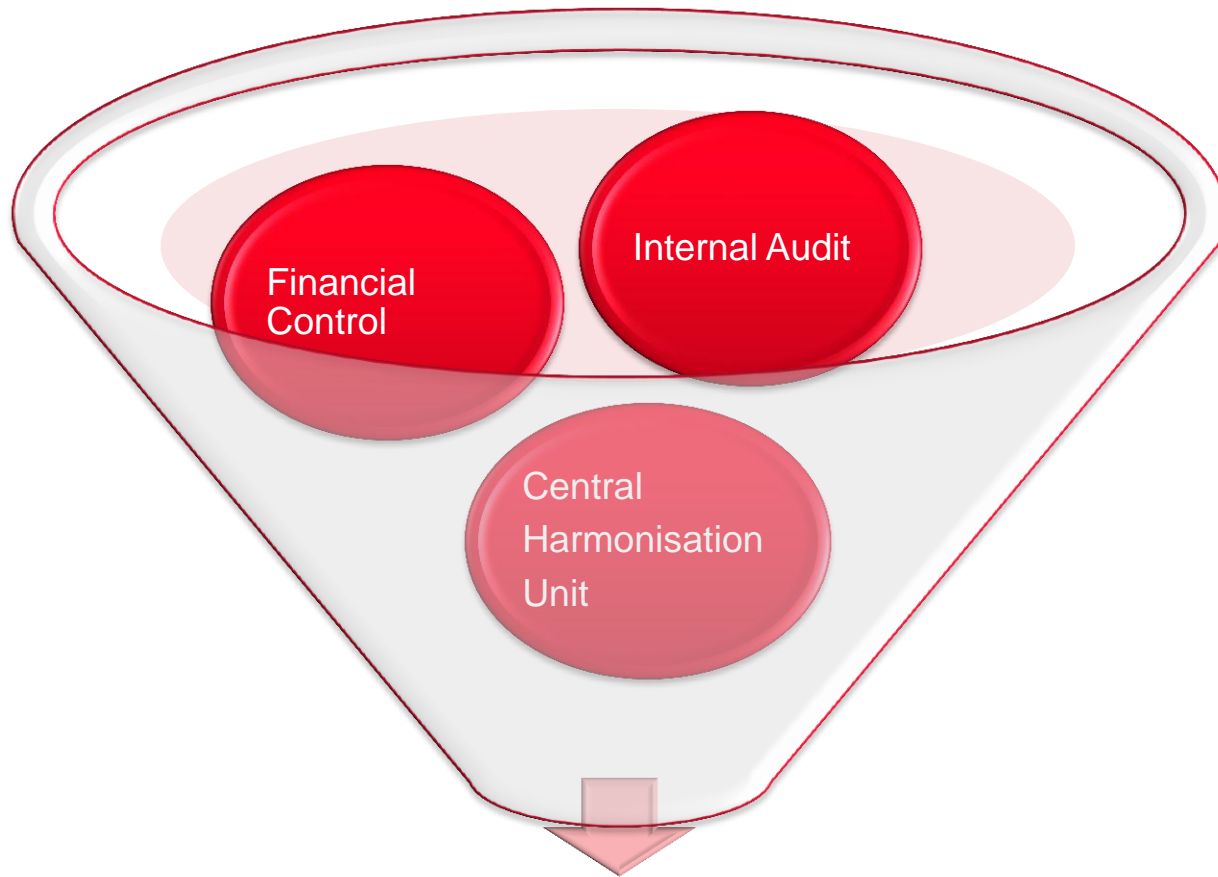
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# The origins of Public Internal Control

- **Subject of EU accession negotiations**
- **July, 27th, 2001 - adoption of parliamentary act amending the Public Finance Act of November, 26th, 1998**
- **January 1, 2002 - entry into force of the PFA and launch of implementation process of Public Internal Financial Control (PIFC)**
- **The Public Finance Act was amended 4 times (2001, 2005, 2006, 2009)**



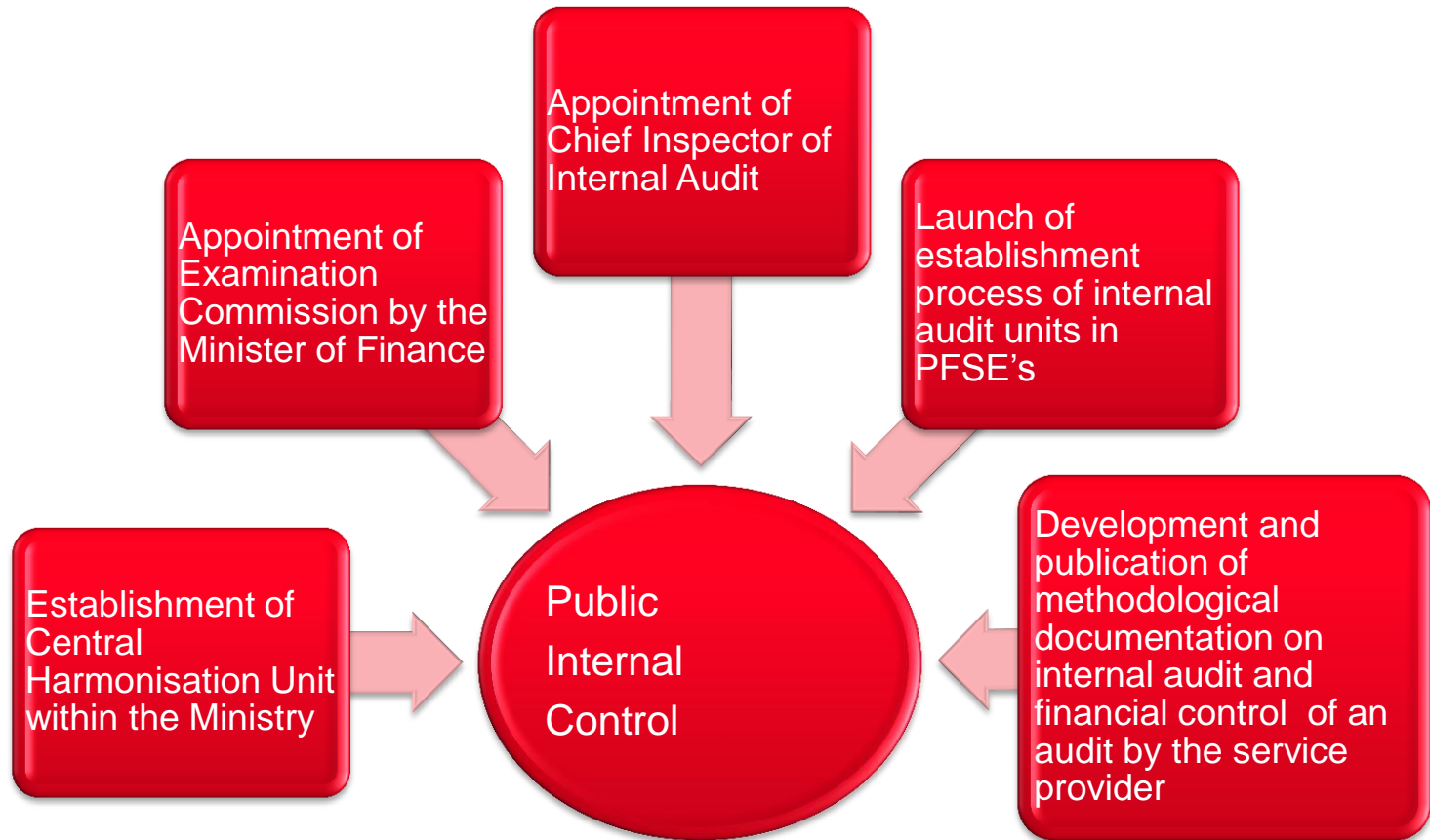
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# Implementation of PIFC



# Key roles in the PIFC system in Poland

- Ministry of Finance (CHU)
- Manager of PFSE
- Head of internal audit unit



# Challenges during implementation of PIFC

- Determination of legal and methodological basis
- Establishment of internal audit units
- Ensuring organizational and functional independence of internal audit function
- Ensuring qualified internal auditors
- Dissemination of audit methodology and internal control standards
- Promoting awareness of managers of public finance sector entities (PFSE) on their responsibility for financial control and the role internal audit

## Most important system changes

- Since 2006, direct implementation of IIA Standards as internal audit standards for PFSE
- Since 2006, introduction of new types of qualifications and certificates for internal auditors in public sector
- Since December 2006, liquidation of the position of Inspector General Internal Audit and Examination Commission
- Since 2006, expansion of competences of the Minister of Finance by the possibility of requesting internal audit in PFSE's
- Since 2010, replacing the concept of financial control with the concept of management control and redefining of audit tasks
- Since 2010 establishment of audit committees in ministries
- Since 2010 allowing service providers to carry out audits

# Key roles in the PIFC system in Poland

- Ministry of Finance (CHU)
- Manager of PFSE
- Internal Audit
- Head of internal audit unit

# Session No. 1

## Management control

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## Introduction

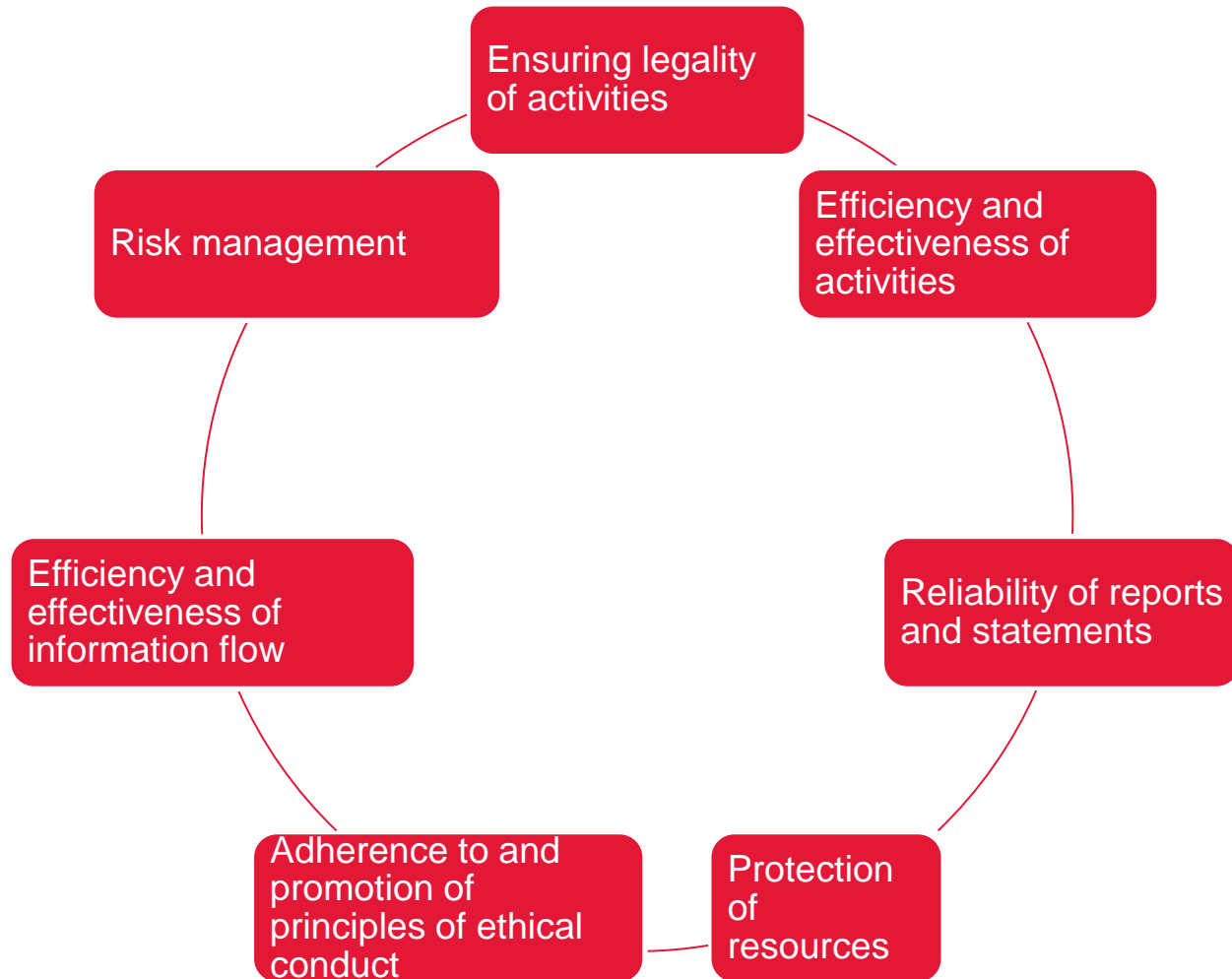
The Public Finance Act of August, 27th, 2009, which is in force since January, 1st, 2010, introduced the concept of management control.

**Management control** is all measures undertaken to ensure that objectives and tasks are achieved in a manner which is consistent with law, effective, cost-efficient and timely.

Ensuring the functioning of **sufficient, efficient and effective** management control is the responsibility of:

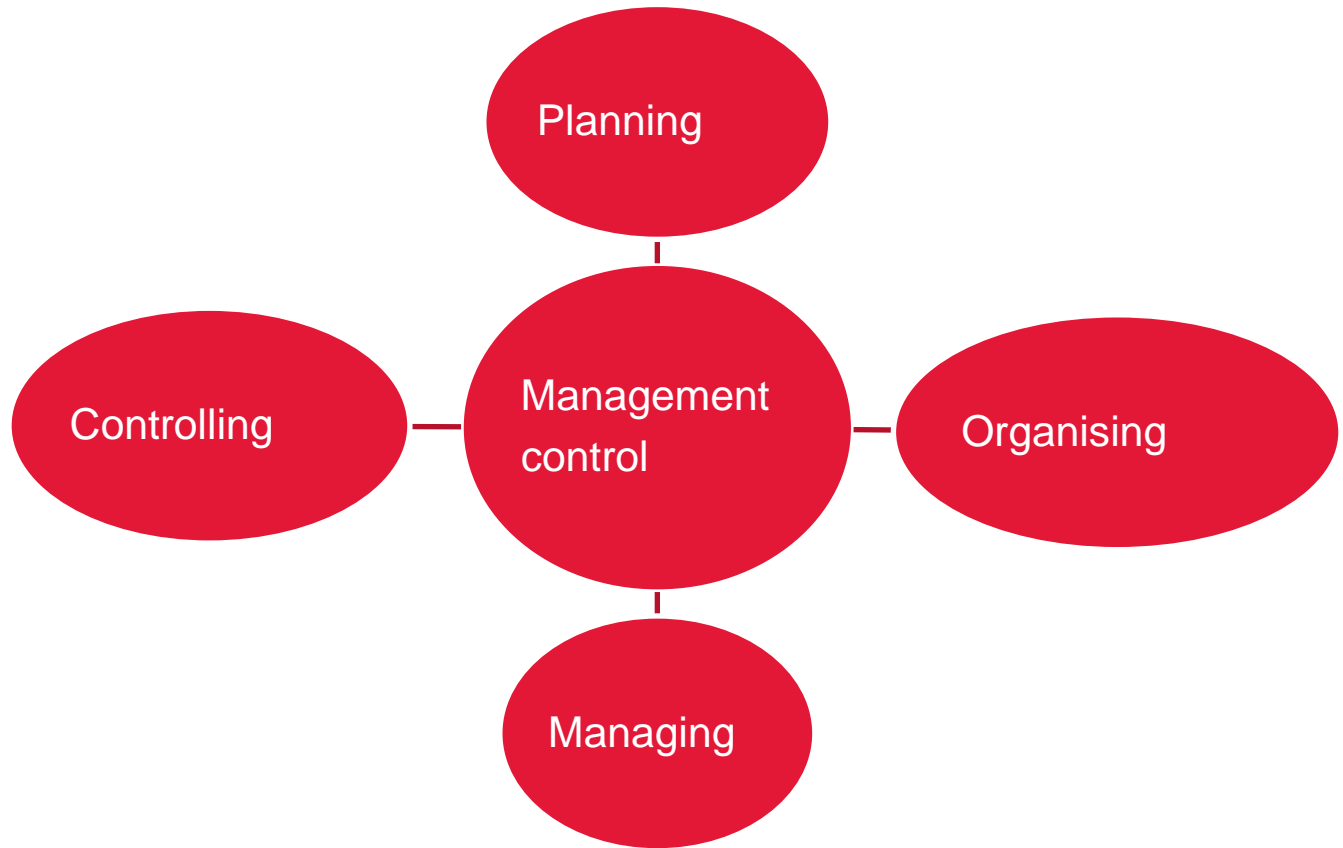
- the minister through government administration units, supervised by the minister
- commune administrator, mayor, chairman of local government unit board
- manager of PFSE

# Objectives of management control



# What is management control?

**Management control:** *exercise* or *execute* ?





# Statement on the status of management control

- form and specimen statement on the status of management control is set out in the Ordinance of December, 2nd, 2010 *on the form of statement on the status of management control* (Journal of Laws No. 238, item 1581)
- the statement is divided into three sections:
  - **section one** is the statement itself - evaluation of the status of mc
  - **section two** should contain reservations in regard to the functioning of mc
  - **section three** provides description of activities undertaken to enhance the control system
- the statement refers to the year preceding the year of submission of the statement

## Elements of activity plan

Indicators of the level of achievement of the objective

Planned values of indicators

OBJECTIVES

Reference to strategic documents

Most important tasks aimed at achievement of the objectives

# Standards of management control

Define basic requirements

Promote consistent, unified model of mc

Provide a structured set of guidelines

## Conclusions

- An organization built from scratch is not needed to implement management control tasks, neither are, in many instances, new solutions.
- Duties and responsibilities of management control can not be confined to a single organizational unit.
- Managing an entity is not a project - or an undertaking limited in time. It is impossible, therefore, to ever consider the process of implementation of management control as being completed.

# Session No. 1

## Internal audit

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# Introduction to internal audit in public sector

- Internal audit in the public sector is decentralized (1754 IAU's)
- It is based on *Internal audit standards for public finance sector entities* (published by Announcement of the Minister of Finance)
- The role of internal audit is to support entity manager

### **Original definition of audit, set out in PFA:**

- Independent check of management and control function in entity, including financial control procedures, that provides entity manager with an objective and independent assessment of sufficiency, efficiency and effectiveness of these systems;
- Advisory activities, including submission of proposals aimed at improving the functioning of entity.

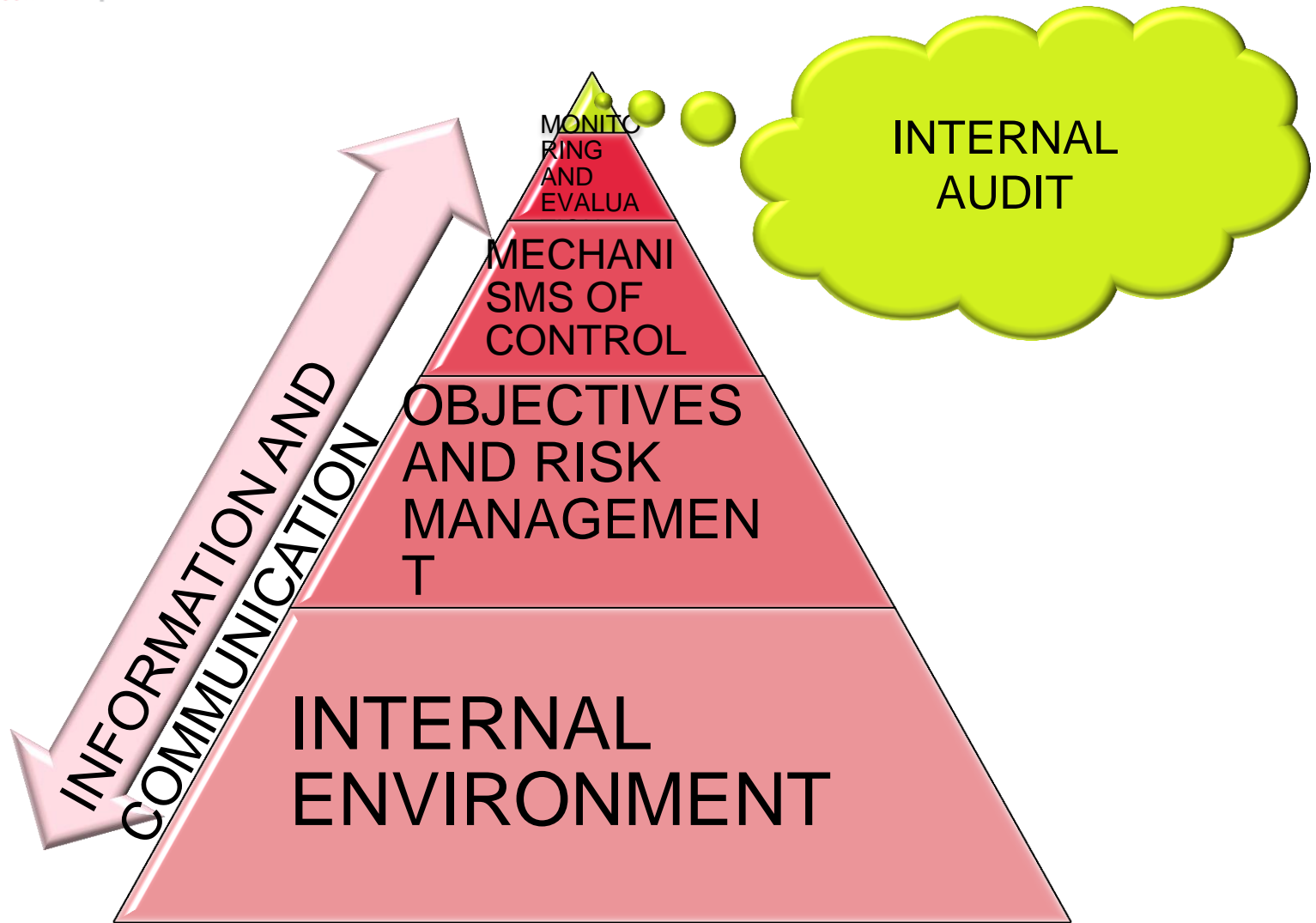
## Internal audit

### **Current definition of audit, set out in PFA:**

- Internal audit is an independent and objective activity, aimed at supporting a competent minister or entity manager in achievement of objectives and implementation of tasks by exercising systematic evaluation of management control and providing advisory activities.
- The assessment relates, in particular, to sufficiency, efficiency and effectiveness of management control in government administration unit or public sector entity.



# Financial (management) control vs. internal audit



## Entities are required to conduct internal audit activities

- Entities referred to in Article 274 par. 1 and 2 of the Public Finance Act.
- Competent minister may identify those entities that are required to conduct audit.
- Entity manager may decide to conduct internal audit.
- Local government units with income and revenues or expenses and expenditure in excess of PLN 40 million

## Entities / parties authorized to conduct internal audit

- internal auditors employed by given entity;
- service provider not employed by given entity (i.e. external)
- System of licenses and certificates.

# Session No. 1

# Central Harmonisation Unit

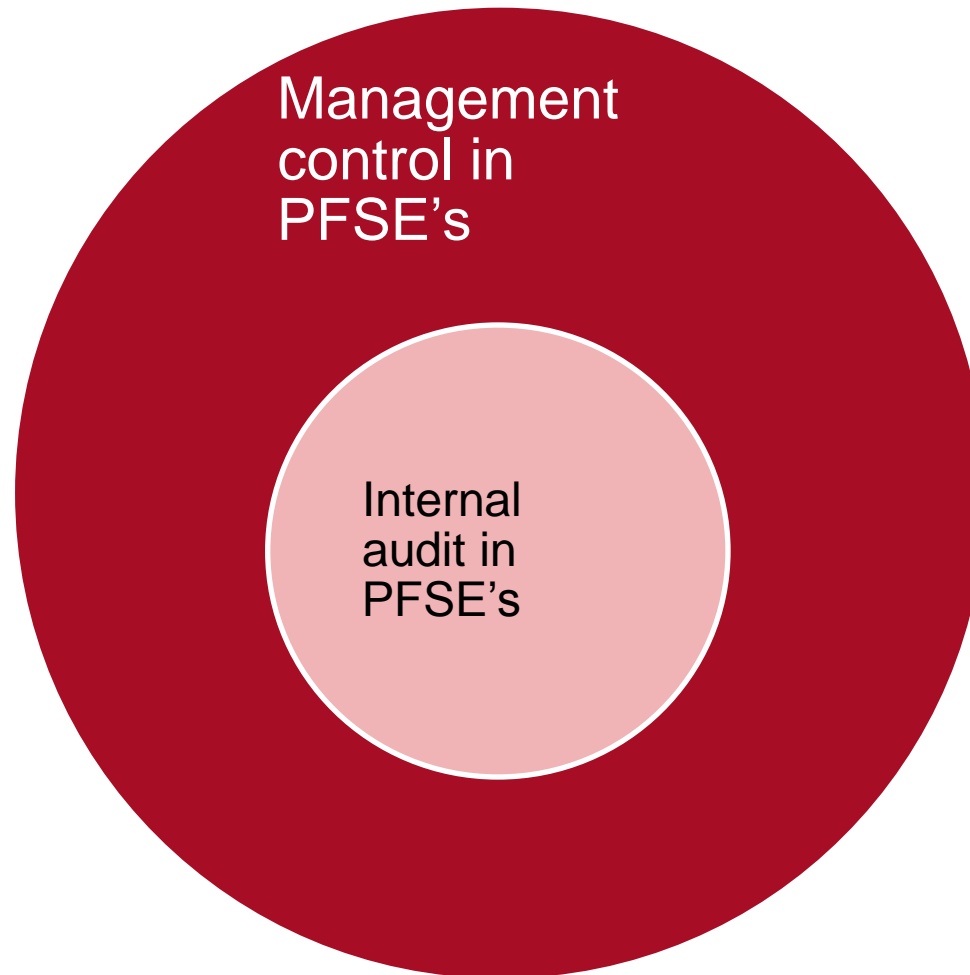
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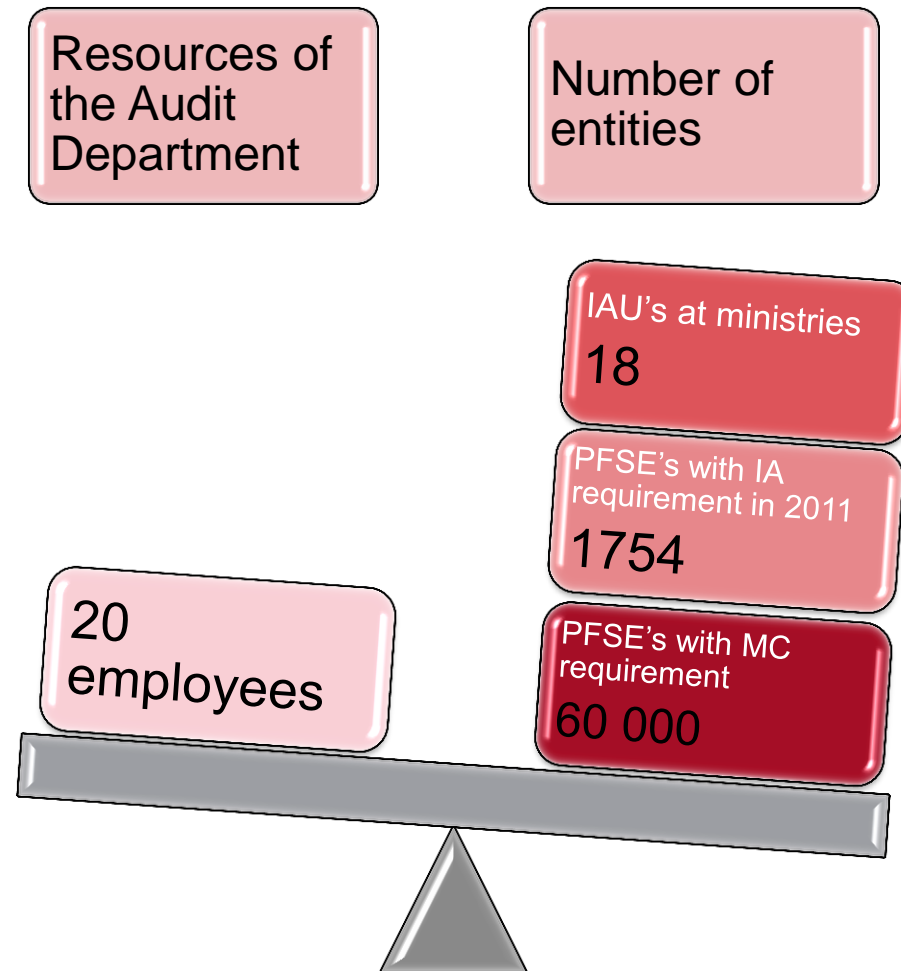
# Coordinating role of the Minister of Finance

## Scope of coordination



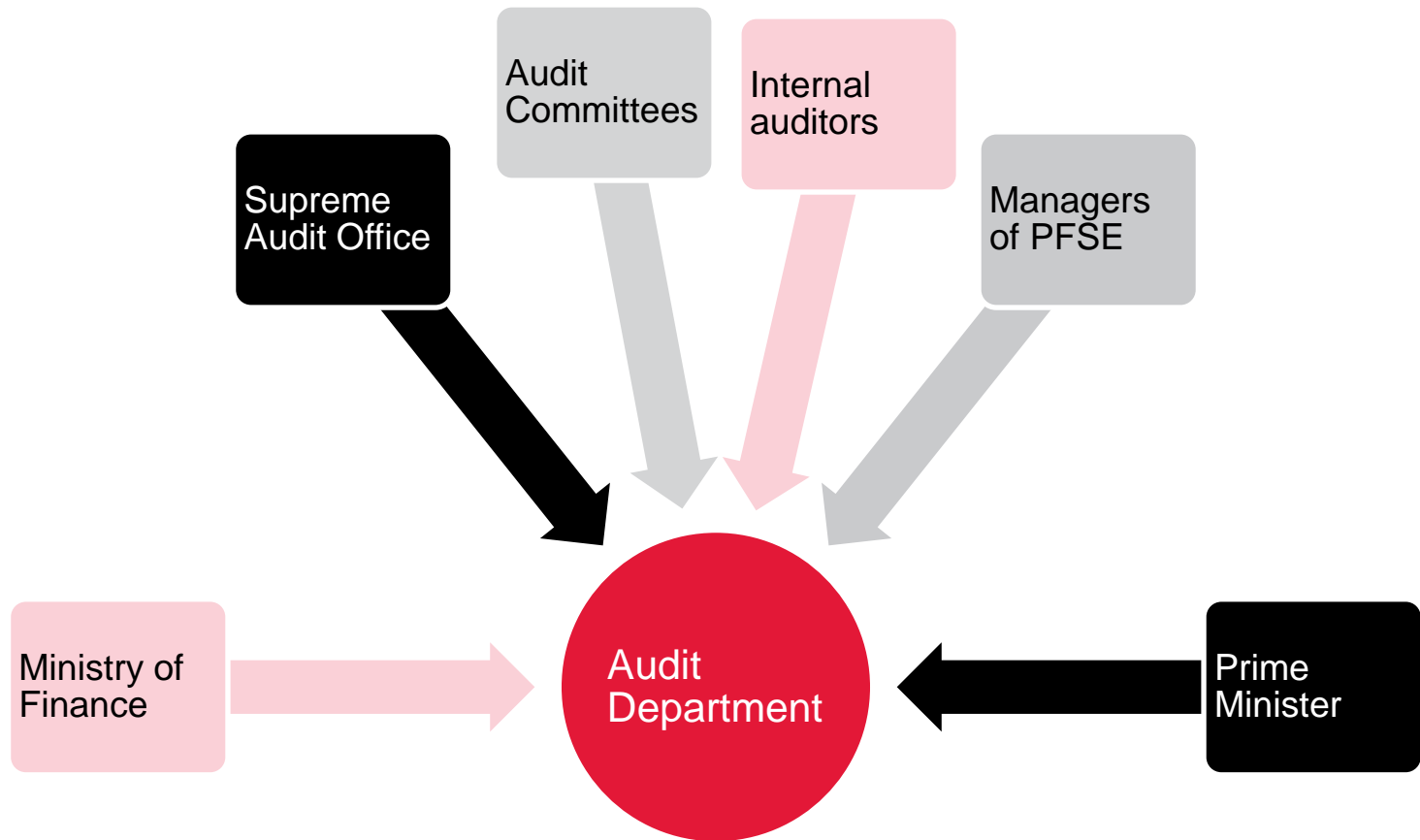
# Coordinating role of the Minister of Finance

## Department of Public Finance Sector Audit



# Coordinating role of the Minister of Finance

## Customers of the Audit Department



# Tasks of the Minister of Finance

## Management control

- defines and communicates MC standards for PFSE's
- may provide detailed guidelines
- communicates the form of the statement on management control status
- disseminates standards
- provides guidelines
- collaborates with organizations (...) and AC

## Internal audit

- determines, by ordinance, methodology for internal audit and submission of information on audit assignments and results
- collects reports from AC
- determines, by ordinance, qualifications of AC members, method of determining remuneration, requirements for AC regulations
- requests internal audits (with the exception of art. 139 par. 2 and LGU's)
- evaluates internal audits (with the exception of art. 139 par. 2 and LGU's)
- disseminates standards
- provides guidelines
- collaborates with organizations (...) and AC
- collects information from PFSE's, the form of which may specify by way of notice

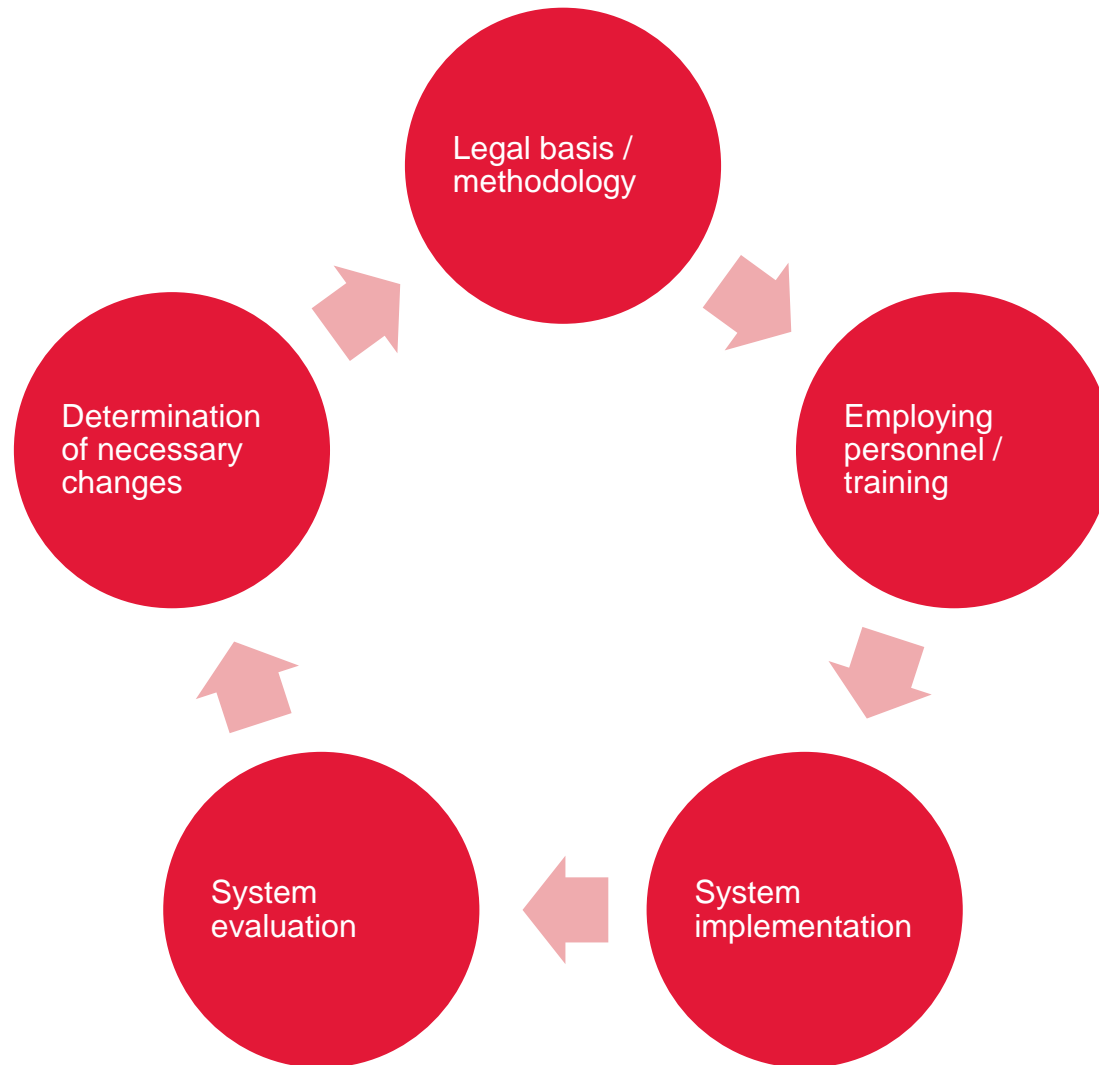


## Objective of coordination by MF

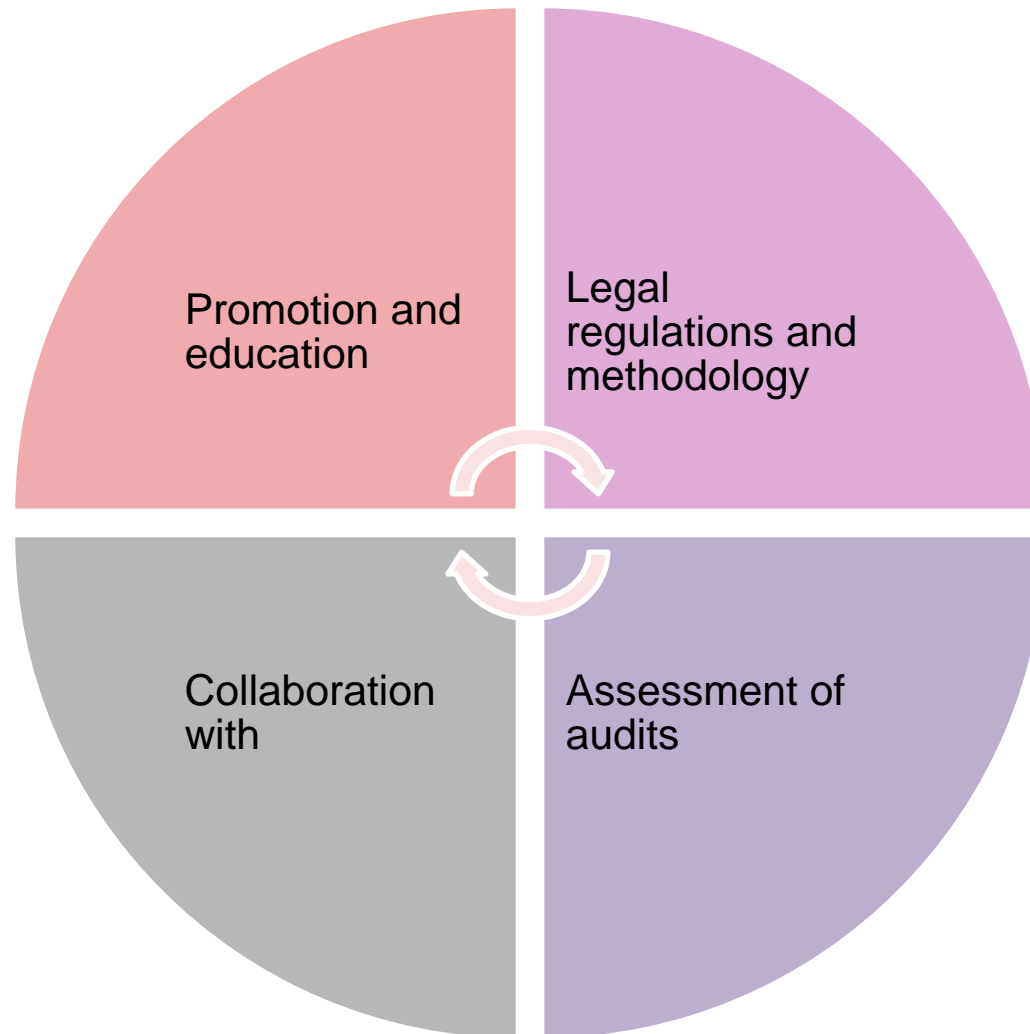
- Creating framework for management control and internal audit
- Implementing management control? Can implementation of management system in PFSE's be considered? If so, when would such implementation be completed?
- Development of internal audit? When could internal audit be considered as “developed”?
- Coordination evolves with audit
- Coordination is a process.

# Coordinating role of the Minister of Finance

## Tasks of coordination:



# MF areas of activity



# MF activities associated with promotion and education

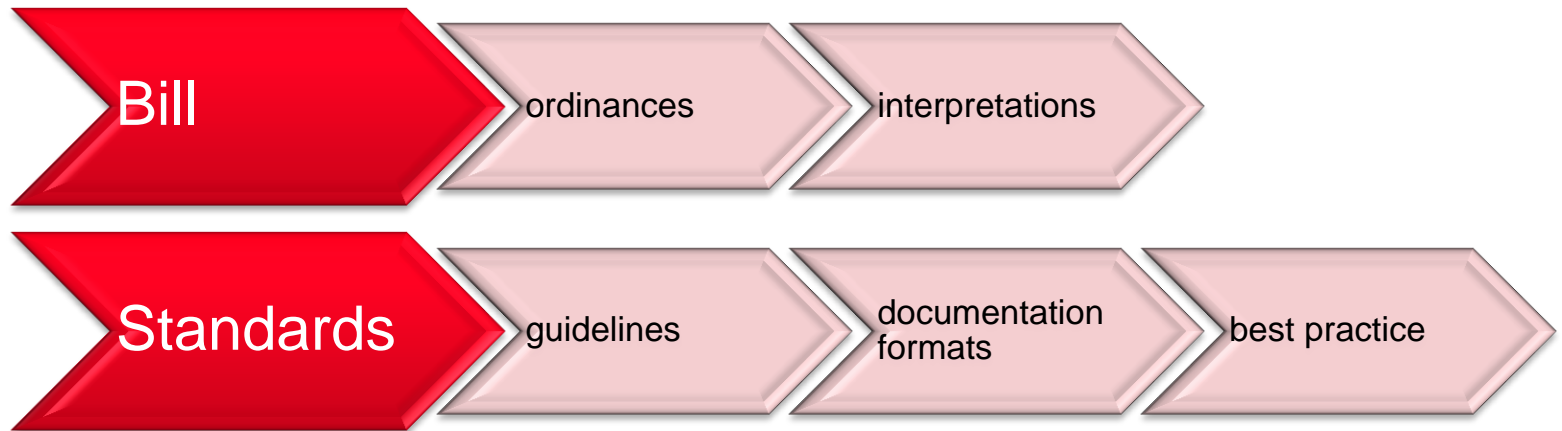
## Education

- Training for internal auditors (projects)
- MF participation in auditors' training sessions
- Recurring meetings
- Evaluation at entities'

## Promotion

- Seminars for managers of PFSE's
- MF participation in conferences for managers of PFSE's
- Publications on MF website
- Management Control Bulletin in LGU's
- Meetings for AC

# MF activities associated with legal regulations and methodology



# MF activities associated with collaboration

Collaboration with:

- Organizations, associations, etc..
- Internal auditors
- Audit Committees
- Independent experts
- The Chancellery of the Prime Minister
- European Commission



# MF activities associated assessment of audits

- Publication of audit assessment criteria
- Assessment of audit at PFSE's
- Audit commissioned
- Reporting
- Benchmarking



## Other tools provided by CHU

- Guidelines for self-assessment of internal audit in public sector
- Methodology applied by CHU during peer review (old version)
- Guidelines for the Program for internal audit quality assurance and improvement
- Model of internal audit in public sector based on IIA guidelines
- Benchmark Report
- Examples of best practice.

**All the above mentioned documents have been published on the website of the Ministry of Finance**



# Structure of the MF website

## Management control in public sector

- News
- Legislation and standards
- Audit Committees
- Methodology and best practices
- Frequently asked questions
- Link
- Contact

## Internal audit in public sector

- News
- Legislation and standards
- Audit commissioned
- Professional qualifications
- Methodology and best practices
- Assessment of internal audit
- Reporting
- Training
- Frequently asked questions
- Link
- Contact

# Session No. 2

## Introduction to assessment of internal control at PFSE

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# Why Internal Audit Quality Assurance?

- Quality** – assurance of expected results
- anticipating customers' expectations



# Legal basis of internal audit assessment

1. Public Finance Act
2. International Standards for the Professional Practice of Internal Auditing
3. International Professional Practices Framework,
4. interpretations of the Ministry of Finance
5. internal audit assessment criteria applied by Ministry of Finance employees as part of internal audit coordination

# Some history

Announcement No. 2 of the Minister of Finance of January, 30th, 2003 on standards of internal audit in public finance sector entities ( Official Journal of the Ministry of Finance No. 3 item 14)

Conformity of internal audit activity with *Standards* as well as internal procedures should always be assured.

Internal auditor should it develop internal audit plans and perform internal audit work to the best possible utilisation of resources and assigned time at his/her disposal.

# Some history

## **4.3.2. The system of internal auditor work evaluation**

The system of internal auditor work effectiveness evaluation should consider both internal and external evaluation.

### **Internal evaluation**

Internal evaluation should include:

- ongoing reviews of internal audit functioning,
- periodic reviews performed as self-assessment and by another persons from internal audit unit.

### **External evaluation**

External evaluation is performed by organisational unit of the Ministry of Finance, specialising in such tasks or by another entity authorized to do so.

# Some history

## **4.3.3. Presentation of results**

Internal auditor (head of internal audit unit) should each time notify the entity manager of results of internal and external evaluation.

# Some history

## 4.4. Conformity with standards

### 4.4.1. Use of “*performed in accordance with the Standards*”

If activity of internal auditors conforms with the standards, external auditors may use “*performed in accordance with Internal Audit Standards*”



# Some history

## 4.4.2. Non-conformity with standards

Despite the fact that activities of the internal audit function should conform with the Standards, some non-conformities may occur. If non-conformities affect the work of internal auditor, each such instance must be immediately notified to PFSE manager.

# Further amendments

- Announcement No. 11 of the Minister of Finance of June, 26th, 2006 *on standards of internal audit in public finance sector entities* ( Official Journal of the Ministry of Finance of June, 30th, 2006 No. 7 item 56)
- Announcement No. 8 of the Minister of Finance of April, 20th, 2010 *on standards of internal audit in public finance sector entities* ( Official Journal of the Ministry of Finance No. 5 item 24)
- Announcement No. 4 of the Minister of Finance of May, 20th, 2011 on standards of internal audit in public finance sector entities ( Official Journal of the Ministry of Finance No. 5 item 23)

# IA standards

Pursuant to **art. 273 par. 1** of the Public Finance Act **internal auditor follows guidelines of the *Standards* when conducting internal audit activities.**

*Standards* are not provisions of common law. *Standards* should be considered as guidelines of the Minister of Finance on the conduct of internal audit at public finance sector entities. units.

Nevertheless, the obligation to develop and implement quality assurance and improvement program arises from legislation on internal audit at PFSE's.

Internal auditors, when conducting internal audit activities, **are expected to follow the guidelines** of the *Standards*, since they **ensure appropriate quality** of internal audit, which is reflected in recommendations provided for the entity by internal auditors.

# *Standard 1300*

## *Quality assurance and improvement program*

According to *Standard 1300* the person managing internal audit **must develop and implement a program** of quality assurance and improvement, **applicable to all aspects of activities** of internal audit.

# Objective of the *program*

The objective of the *program* of quality assurance and improvement is to provide reasonable assurance that the internal audit activity is:

- ✓ consistent with the *Definition of Internal Audit and the Standards*,
- ✓ efficient and effective,
- ✓ perceived by audit clients, as an activity creating added value and identifying improvement opportunities
- ✓ internal auditors follow the Code of Ethics

# Nature and scope of the program

The program should be designed so that:

- it was versatile enough,
- it covered all aspects of internal audit activity and management. included the Standards and Best Professional Practices (comprehensive).

## The *program* evaluates:

- conformity with Definition of Internal Audit, *Standards*, Code of Ethics,
- timely (in due course) corrective action to remove all material non-compliance,
- contribution of internal audit towards corporate governance, risk management and management control,
- conformity with applicable laws and regulations,
- effectiveness of continuous improvement of internal audit and implementation of best practices,
- the extent to which internal audit creates added value for an entity.

# The Program of internal audit quality assurance and improvement,

## ● Internal evaluation:

- monitoring
- self-assessment,

## ● External evaluation:

- self-assessment approved independently,
- independent internal evaluation,
- peer review.





## Who evaluate IAQ in public entities?

Qualified review organisation, without the risk conflict of interest.

- Big Four,
- person conducting review or team conducting evaluation,
- auditors from peer entities,
- CHU,
- Who else?

*Supreme Audit Office?*

*Fiscal Control Authority?*

**EU auditors?**

## Evaluation by CHU

- 2002 - 2006 evaluation of financial control and internal audit.
- 2007 - 2011 evaluation of internal audit for its **efficiency** and **effectiveness**..
- **CHU new approach to peer review in 2012**

**Evaluation model should be appropriate  
to the maturity level of audit**

# Session No. 2

## Model Evaluation of functioning of the internal audit system in the years 2002-2006

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# Evaluation of functioning of the internal audit system

- December 2002 (six months after introduction of legislation implementing internal audit into Polish legal system)
  
- employees of the Public Finance Sector Audit Department on the basis of written authorization from the Minister of Finance
  
- within the scope of assessment, authorised to:
  - enter premises of the entity subject to assessment,
  - access documents and other materials, request oral and written explanations from employees of the entity subject to assessment.

## Number of assessed entities

- December 2002 - 6 entities
- 2003 - 34 entities
- years 2004-2006 - 40 entities each

### Years 200-2006

- 160 entities assessed
- on average 5 employees in assessment unit
- initially 2-person teams - 1 week
- since 2005 - one evaluator - 2 weeks
- Scope of assessment – audit and financial control system at entity

# Criteria for selection of assessed entities - years 2002-2006

- sue of EU funds
  
- subjective, including:
  - ministries,
  - central offices,
  - provincial offices,
  - special purpose funds established as separate organisational entities,
  - entities of customs and fiscal administration,
  - state legal persons in public finance sector established on the basis of separate regulations with the objective of implementation of public tasks.

## Objective scope of assessments carried out in 2002

- organisational and operational independence of auditor  
direct subordination to managers of entities
- authorisation to conduct internal audit
- written study / internal audit card
- conducting internal audit on the basis of annual audit plan, based on risk analysis
- development of audit plan that should cover areas of internal audit unit activity in mid-term and long-term perspective
- internal audit report

## Most significant findings - 2002

- lack of uniform audit statutes (charters),
- auditor position not included in specification of positions -  
in entities not subject to civil service law (Customs)
- appointment to auditor positions of persons unprepared, with no experience in internal control
- risk of discretionary and uncontrolled relocations of auditors to other positions



## Objective scope of assessments carried out in 2003

- place and position of a internal audit unit or position in PSFE structure (independence, subordination, work conditions)
- internal audit unit employment structure and auditors' qualifications (recruitment, qualifications, professional development, training, internal assessment)
- conditions and procedures of functioning of internal audit units in entity
- methodology of internal auditor work associated with development of audit plan (risk analysis method) consideration of availability of EU funds managed by PFSE - when conducting risk analysis
- audit assignments
- development of financial control procedure,*
- functioning of financial control standards*

## Most significant findings - 2003

- audit activities not separated from other activities - internal audit unit as part of other organisational units (internal control/ Office of the Minister, etc.), not reporting directly to entity manager
  
- lack of proper work conditions (tools, training)
  
- audit team size not adapted to the size of entity
  
- involvement of auditors in operational activities (combination of internal audit activities and internal control activities in one organisational unit inappropriate scope of tasks)

## Most significant findings - 2003, cont.

- lack of proper internal regulation on objectives, authorisation and responsibility of internal auditors (audit cards)
  
- supplementing, updating and systematizing permanent files
  
- lack of consideration of availability of overseas funds, including EU funds managed by PFSE
  - when conducting risk analysis
  
- lack of working documentation that is reliable, complete and conforming with regulations (current / working files) programs/reports/working documents

# Objective scope of assessments carried out in 2004-2006

## two basic areas of assessment:

- ❑ application of provisions of Public Finance Act in the scope of internal audit / functioning of *internal audit Standards*
- ❑ application of provisions of Public Finance Act in the scope of financial control / functioning of *financial control Standards*

# Objective scope - internal audit

## ❑ ORGANISATION OF INTERNAL AUDIT FUNCTION WITHIN ENTITY

(establishing internal audit unit, operational separation of IAU tasks, development of organisational rules, detailed objectives scope and procedures of internal audit, management of IAU),

## ❑ PERFORMING INTERNAL AUDITOR TASKS

(independence and objectivity of auditors, ensuring reliability and professionalism (training), ensuring quality and efficiency of internal audit (self-assessment/internal evaluations)

## ❑ IMPLEMENTATION OF INTERNAL AUDIT (proper determination of objective scope of audit - scope of activities - procedures, card, risk assessment - EU funds, development of audit plan, documentation maintained at entity, implementation of audit tasks (authorisation, program, report - submission procedure)

## Significant findings - years 2004-2006

- ❑ IA as part of other organisational units
- ❑ lack of direct reporting to entity manager
- ❑ lack of functional independence - assignment of tasks unrelated with implementation of audit
- ❑ involvement of auditors in operational activities of entity
- ❑ deficiencies in functioning of normative act, that determines objectives, authorisation and responsibility of internal auditors (internal audit card - on the issue of auditor independence, internal audit scope as well as reporting

## Significant findings - years 2004-2006, cont.

- need of supplementing the the document on description of internal audit methodology (the so-called Book of procedures), including methods applied for risk analysis, description of applied audit techniques
- lack of full and unrestricted access to information related to entity operation
- lack of consideration of availability of overseas funds, including EU funds - when conducting risk analysis
- lack of complete documentation, including documentation of risk analysis
- limited application of audit implementation technique (training)
- improper documenting of implementation of audit assignments

## Monitoring of implementation of audit recommendations

- ❑ carried out each time six months after the assessment date,
- ❑ since quarter III of 2003 till end of 2006 (until introduction of the *act* of December. 8th, 2006 *amending the Public Finance Act and some other acts*)

**Information on implementation of recommendations of audit on application of provisions of Public Finance Act of November, 26th, 1998 (Journal of laws of 2003 No. 15 item 148 with subsequent amendments) and on functioning of financial control and internal audit Standards at ..... (name of entity).**



## 1.1. ORGANISATION OF INTERNAL AUDIT FUNCTION WITHIN ENTITY

scope of assessment	implementation of recommendations
<i>1.1.1. appointment of internal audit unit or internal audit position</i>	
<i>1.1.2. organisation independence of tasks implemented by internal audit unit or position</i>	
<i>1.1.3. development of organisational rules, detailed objectives, scope and procedures of internal audit</i>	
<i>1.1.4. managing of internal audit unit and supervision of internal audit</i>	

## 1.2. PERFORMING INTERNAL AUDITOR TASKS

scope of assessment	implementation of recommendations
<i>1.2.1. ensuring independence and objectivity of auditors,</i>	
<i>1.2.2. ensuring reliability and professionalism of auditors</i>	
<i>1.2.3 ensuring quality and efficiency of audit</i>	

## 1. 3. IMPLEMENTATION OF INTERNAL AUDIT

scope of assessment	implementation of recommendations
<i>1.3.1 scope of internal audit activities</i>	
<i>1.3.2 risk analysis (including consideration of availability of EU funds managed by PFSE - when conducting risk analysis)</i>	
<i>1.3.3. preparation of internal audit plan (annual and long term plan) as well as audit report</i>	
<i>1.3.4. documentation maintained in internal <b>audit</b> unit</i>	
<i>1.3.5. implementation of audit assignments:</i>	
<i>1.3.5.1. number of implemented audit assignments, including control activities</i>	
<i>1.3.5.2. authorisation to implement internal audit</i>	
<i>1.3.5.3. audit assignment program</i>	
<i>1.3.5.4. procedure and technique of implementation of audit assignment</i>	
<i>1.3.5.5. internal audit report</i>	

# Monitoring of implementation of recommendations issued as the result of audit on application of provisions of the public finance act of June, 30th, 2005 in the scope of financial control and internal audit conducted in quarter I of 2006 - specification of recommendations and implementation of recommendations

## 1.1. ORGANISATION OF INTERNAL AUDIT FUNCTION WITHIN ENTITY

Entity	Ministry of Economy	Ministry of labour and social policy
I	II	III
<b>1.1.1. appointment of internal audit unit or internal audit position</b>		
<b>Implementation of recommendation</b>		
<b>1.1.2. organisation independence of tasks implemented by internal audit unit or position</b>		
<b>Implementation of recommendation</b>		
<b>1.1.3. development of organisational rules, detailed objectives, scope and procedures of internal audit</b>		
<b>Implementation of recommendation</b>		
<b>1.1.4. managing of internal audit unit and supervision of internal audit</b>		
<b>Implementation of recommendation</b>		

## Department of Public Finance Sector Audit

### Objectives of the AD in 2012:

- Development of uniform model for assessment of management control.
- Development and dissemination of methods for enhancing efficiency and effectiveness of internal audit at entities
- Improvement of efficiency of AD in promoting management control among managers of PFSE's as the model for managing their entities.

# Challenges



Thank you for your  
attention