

Session No. 3

Model for evaluation of functioning of the internal audit system in the years 2007-2011

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Legal basis

The governmental authority competent for coordination of PFSE's audit is the Finance Minister.

Coordination of internal audit includes in particular the elements referred to in Article 292 par. 1 point 1-6 of the Public Finance Act of August, 27th, 2009 (Journal of Laws No. 157, item 1240 with subsequent amendments)

Legal basis

One of the elements for coordination of the internal audit is the **evaluation of internal audit of PFSE's, referred to in Article 292 par. 1 point 2 of the PFA.**

Basic assumptions

The purpose of the evaluation, which should be seen as a system support, is to strengthen and enhance the effectiveness of internal audit conducted in PFSE's.

This means that both the methods as well as each of the stages of its preparation and implementation should bear the **features of a peer review.**

Basic assumptions

A peer review that is aimed at improving effectiveness and streamlining the internal audit function by identifying solutions that eliminate the imperfections of the system, which impinge on its effectiveness.

Basic assumptions

The evaluation should be **carried out in a professional and objective manner**, that ensure proper assessment of the facts, drawing relevant conclusions and making audit recommendations or taking systemic corrective actions..

Basic assumptions

Assessment activities **are not subject for re-audit.**

Considering the purpose of assessment, the evaluation criteria should, in particular, focus on internal audit products and their possible impact on organisational unit activity.

Organisational basis

The evaluation is carried out:

- based on the ***Plan***,
- based on ***authorizations*** granted by the Finance Minister
- according to developed methodology (***Procedures Manual***).

Evaluation plan

Selection of the PFSE for assessment is made from the statutory catalogue of PFSE's, indicated in the PFA, based on objective selection criteria, but also making use of the information and data, available at the Audit Department.

Evaluation plan

Sample selection criteria include:

- number of audit assignments carried out,
- position of *IAU* in the organisational structure of PFSE,
- progress of implementation of *Audit Plan*
- time allocated for audit activities/total time budget of *IAU*,
- significance of *PFSE* groups that are required to carry out an internal audit
- failure to conduct evaluation/or time from most recent evaluation

Evaluation plan

Application of selection criteria and allocation of weights to these selection criteria enables to prepare a ranking of PFSE's that should be subject to activities first.

Development process of subjective scope of *the Plan* is based on available human resources, the time necessary to carry out activities and a wide objective scope of the evaluation.

Methodology

The Procedures Manual is an open document with samples of working documentation and relates to the following issues:

- evaluation scope,
- annual planning,
- scheduling of activities,

Methodology

- specific activities,
- communicating of results,
- quality assurance and improvement program,
- initiating of activities,
- semi - annual reporting.

Methodology

The evaluation methodology is subject to periodical updating.

For practical reasons the *Procedures Manual* is updated in annual periods.

Re-development of methodology and approval of revised version of the *Procedures Manual* are completed within the first month of a new calendar year.

Methodology

Amending provisions of the *Procedures Manual*, in each case during a year if:

- circumstances occur that require immediate revision (such as change of legal regulations governing the functioning of internal audit at PFSE's),
- organization and management of the Division is changed,
- important conclusions are drawn from activities carried out by the Division, etc.

Quality assurance and improvement program of the assessing Division

Bearing in mind the provisions of *SPPIA (Standard 1300)* the Division implemented and applies the quality assurance and improvement program and also implement a process to monitor and evaluate the overall effectiveness of the quality program.

Quality assurance and improvement program of the assessing division

The internal assessment includes:

- ongoing evaluation of Division activities,
- periodic reviews performed through self-assessment or by other person, with knowledge of internal audit practices and the *Standards* (within the organization).

Quality assurance and improvement program of the assessing division

The ongoing assessment of quality includes:

- monitoring of tasks (with documentary evidence),
- regular review of current legislation,
- use of checklists to make sure that auditor' work corresponds to the accepted procedures,
- use of questionnaires completed by IAU upon completion of *Audit Results* communication process (questionnaires are sent by a separate letter)
- analysis of other indicators of activity/performance.

Quality assurance and improvement program of the assessing division

Periodic assessments of quality are performed by the staff of the Division, Department or by other people competent in audit.

Periodic internal assessments include:

- annual self-assessment,
- periodic assessment of audit documents (permanent and current records) for compliance with Division Procedures Manual and with the *Standards*,
- report on Division activity, presented to the Department Director / Member of Management of the MF.

Quality assurance and improvement program of the assessing division

As part of the quality assurance and improvement program, in November 2008 auditors of Deloitte Audit Sp. z o.o. carried out a review which was followed by an assessment and analysis of scheduling of activities, undertaken by employees of the DA in their assessment of PFSE internal audit.

Quality assurance and improvement program of the assessing division

The following elements of the evaluation process were subject to review:

- procedural solutions governing the process,
- the procedure for gathering feedback on internal audit function of the manager of PFSE and the heads of audited organisational units,
- the procedure for conducting analysis of IAU,

Quality assurance and improvement program of the assessing division

- the procedure for analysing the planning and reporting processes, implemented by IAU,
- the procedure for analysing implementation of audit assignments (assurance and advisory audits),
- the procedure of analysing IAU's efficiency.

Quality assurance and improvement program of the assessing division

The evaluation of scheduling activities, undertaken in respect of assessment of internal audits at PFSE's, provided by the auditors of Deloitte Audit, was successful.

It was determined that assessment methodology set unambiguous framework and allowed for verification of key elements of the activities carried out by internal audit PFSE's and that presented approach was structured and based on precisely defined scope of assessment.

Quality assurance and improvement program of the assessing division

At the same time the auditors of Deloitte Audit Sp. z o.o. highlighted the areas that should be improved in such a way so as the assessment was more comprehensive.

The auditors provided recommendations, which, if implemented, according to them, could be yet another step in the development of a modern approach to the assessment of functioning of internal audit of the public finance sector.

Quality assurance and improvement program of the assessing division

As a result of the assessments conducted to date, the practical experience gained, as well as implementation of recommendations of Deloitte Audit auditors, some significant changes in the methodology applied have been made, in particular:

- standardisation of final rating scale,
- change of the method of presenting *Audit Results*,
- modification of criteria for assessing the efficiency of internal audits and performance indicator allowing for such assessment.

In the period 2008-2012 the Division managed to carry out 102 assessments in total, including:

- 2008 - 19 assessments,
- 2009 - 17 assessments,
- 2010 - 8 assessments,
- 2011 - 13 assessments,
- 2012 - 45 assessments (pending)

Scope of assessment

Following the change of methodology, the assessment now covers five block (areas):

- **Organization and management,**
- **Planning,**
- **Reporting,**
- **Implementation of assurance (assuring) activities,**
- **Implementation of advisory activities.**

Scope of assessment

Each of the blocks referred to above, including processes defined therein, was assessed for:

- compliance with requirements provided for in legal regulations,
- compliance with requirements provided for in the *SPPIA*,
- efficiency of the internal audit function.

Scope of assessment

Assessment of IAU function efficiency is carried out with respect to the following criteria, just to give a few:

- practical aspects and methodological solutions as well as compliance of adopted solutions with those actually used,
- profile of education and collective knowledge of IAU staff with regard to training needs as well as selection criteria of planned training,
- methods for identification and risk assessment in the planning process,
- involvement of PFSE management in the process of risk analysis,

Scope of assessment

- scope of scheduled assignments and results of risk assessment,
- organizational assumptions adopted for IAU in the planning process,
- percentage of activities directly related to carrying out the audit in relation to the total budget of time, available to IAU,
- comparison of planning indicators and implementation of assignments over recent years,

Scope of assessment

- use of available time and human resources,
- time needed for implementation of assignments,
- so called audit cycle, which determines the time perspective, in which all audit areas, identified for given entity, are likely to be audited,
- planned techniques of implementing assignments in the context of achievement of stated objective and scope of assignment,

Scope of assessment

- quality of audit evidence and information obtained during the course of assignment implementation in terms of their sufficiency, reliability and suitability,
- compliance of the course of assignment with the scope, objective and schedule,
- classification and presentation of significant audit findings,
- reporting quality,
- adequacy and timeliness of undertaken control activities,
- other.

Scope of assessment

For each of the blocks so called **key processes** have been distinguished, along with their assessment criteria, weights describing their significance for given process as well as assumptions of assessment (assessment scale).

Scope of assessment

In case of the **organization and management** block, the following processes are subject to evaluation:

- organization and position of IAU (including direct subordination to head of given unit),
- card audit and other regulations,
- professional development,
- methodology of internal audit (procedures manual),
- quality assurance and improvement program,
- managing IAU.

Scope of assessment

In case of the **Planning** block, the following processes are subject to evaluation:

- risk analysis,
- development and distribution of audit plan,
- development and updating of Strategic Audit program.

Scope of assessment

In case of the **Reporting** block, the following processes are subject to evaluation:

- progress of implementation of audit plan,
- development and distribution of audit report,
- development and distribution of reports on implementation of internal audit assignments,
- use of available resources.

Scope of assessment

In case of the **Implementation of assurance (assuring) activities** block, the following processes are subject to evaluation:

- analysis of risk for areas subject to activities,
- development of assignment plan,
- implementation of assignment,
- development and distribution of report on audit engagement,
- monitoring and checks.

Scope of assessment

In case of the **Implementation of advisory activities** block, the following processes are subject to evaluation

- scheduling of advisory activities,
- implementation of advisory activities,
- report on advisory activities.

Scope of assessment

The framework of assessment of internal audit with a model of perfect IAU, which includes criteria (which are the basis for individual assessment of PFSE in respect of individual blocks as well as key processes) is available on the website of the Ministry of Finance (tab: **Audit of Public Finance Sector**, section: **Verification and Evaluation**).

CRITERIA OF ASSESSMENT

Results of assessment

The results of assessment are based on analysis of source documentation, generated by internal auditors for the purpose of specific audit assignments, analysis of other documents, including documents prepared by the auditors, such as planning and reporting documents and others, including instructions, procedures, audit cards.

Results of assessment

The activities carried out by the evaluators are focused on internal audit products and their possible impact on activity of a specific PFSE and on assessment of IAU activity efficiency.

Assessment is not subject for re-audit.

Results of assessment

The end result of the activities performed are so called **Results of internal audit assessment**.

Results include, among others: a summary assessment along with description of scoring of processes and an opinion on the process and its evaluation.

An integral part of each of the *Results* is the **Individual Assessment Sheet**, that presents, in details, the method deployed for assessment of processes.

Results of assessment

Detailed section of the *Results* describes most significant audit findings, determined in the course of implementation of activities, along with recommendations; it also provides information from auditors, heads of audited departments, managers of PFSE (from questionnaires).

Results of assessment

Manager of the PFSE, which was subject to audit activities, may submit additional explanations or reasoned objections to the findings of facts, analysis of causes and consequences of identified deficiencies as well as to recommendations provided, within 7 days from the date of receipt of the *Results*. Final *Results* submitted to Managers at PFSE and the Under-Secretary of State at the Ministry of Finance.

Results of assessment

I. ASSESSMENT SUMMARY

I. 1. Description of process scoring

The following scale was used to present the results of assessment of internal audit implementation:

++	Area, in respect of which all key and desirable solutions were implemented.
+	Area, that requires actions and / or implementation of certain process solutions.
-	Area for which no solutions were implemented or the implemented solutions are not sufficient.

Results Wyniki were prepared on the basis of determination of facts by evaluators in the course of activities, considering the assumptions, set out in the *Framework scope of internal audit assessment* and assessment criteria, set out in *Detailed assessment criteria*.

Results of assessment

I. 2. Assessment of processes

Appendix No. 1 to this documents contains *Individual assessment sheet*, that presents, in detail, the method deployed for assessment of processes. The results of the assessment are provided hereunder.

ORGANISATION AND MANAGEMENT	
Establishment of an independent from the organisation, position / internal audit unit, reporting directly to the head of the organisational unit	+
Internal audit card and other internal regulations	+
Professional development	++
Internal audit methodology (Procedures Manual)	-
Quality assurance and improvement plan	-
Managing of internal audit unit	++
PLANNING	
Risk analysis	+
Development and distribution of audit plan	+
Development and updating strategic audit plan	-

Results of assessment

I. 2. Process assessment	REPORTING	
	Implementation of audit plan	++
	Development and distribution of audit report	++
	Utilisation of available resources	-
	IMPLEMENTATION OF ASSURING ACTIVITIES	
	Analysis of areas subject to activities	+
	Development of assignment plan	++
	Implementation of assignment	++
	Development and distribution of assignment report	+
	Monitoring and checks	-
	IMPLEMENTATION OF ADVISORY ACTIVITIES	
		++

Most common deficiencies

- in scope of Organization and management related to:
 - position of IAU within the organisation in the context of IAU independence,
 - engage internal auditors in operational activity of organisational unit,
 - outdated regulations, lack of consistency with other internal regulations / procedures,
 - lack of regulations on the nature and type of advisory activities,
 - failure to develop and apply a quality assurance and improvement program,

Most common deficiencies

- in scope of Planning and reporting related to:
 - lack of documentation on approval of the scope of audit plan implementation,
 - lack of engagement of the heads of organisational units in the process of risk analysis as part of annual planning,
 - failure to include all areas of activities of organisational unit in the process of risk analysis at planning stage,

cont.

- under-representation of time allocated to activities directly relating to implementation of audit assignments in relation to total available time budget,
- absence or obsolescence of strategic audit plan,
- lack of assumptions and calculations of audit cycle.

Most common deficiencies

- in scope of Implementation of audit assignments related to:
 - failure to adhere to the required procedure of communication of audit results,
 - failure to document risk analysis and evaluation of management and control systems during the stage of audit assignments program development,
 - failure to carry out classification of findings,
 - lack of criteria for evaluation of the facts in the Audit reports.

Questionnaires

One of the elements of quality assurance and improvement program, utilised by the Division, are questionnaires filled IAU upon completion of review and evaluation.

The analysis of surveys reveals that **IAUs have favourable opinion of the manner and methodology** of assessment. IAU also has positive opinion on **objectivity, professionalism and communication** skills of evaluators (these attributes gained 5 points on a scale of 1 to 5).

Results of questionnaires

IAU's, included in the activities, assessed the **quality of Results at 4.8** (arithmetic mean of scores from individual IAU's, a scale of 1 to 5).

A very important indicator was the assessment of suitability of the evaluation of internal audit function. Data contained in the questionnaires revealed that **IAU's** included in the them **assessed the suitability** of implemented **activities at 4.6** (arithmetic mean of scores from individual IAU's, a scale of 1 to 5).

Results of questionnaires

The remarks of the evaluators were assessed, by IUA's included in the activities, as objective and valuable have been or will be used to improving the efficiency as well as further improvement of the internal audit function at **PFSE's**.

Session No. 4

Model for evaluation of functioning of the internal audit system in 2012

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Peer review 2012

- is intended to collect information on efficiency, effectiveness, and suitability of internal audit in selected organisational units.
- carries out assessment of quality of selected process the basis of results / products of internal audit
- information is collected via e-mail, almost no visits at locations.

New concept

Peer review 2012

- an attempt to find the best way of making use of limited human resources (more than 600 organisational units / 3 or 2 employees involved in reviewing)
- results are used to improve the internal audit system by developing better solutions for identified weakness

Peer review 2012

- information is collected via e-mail, almost nil visits at locations.
- an attempt to find the best way of making use of limited human resources (more than 600 organisational units / 3 or 2 employees involved in reviewing)
- Results are used to improve the internal audit system by developing better solutions for identified weakness

Comparison of method / manner of implementation of internal audit assessment

Subjective scope of assessment

PFSE's that may be included in the assessment of internal audit are set out in Article 274 par. 1 point 2, 4, 5, 6 of the Public Finance Act.

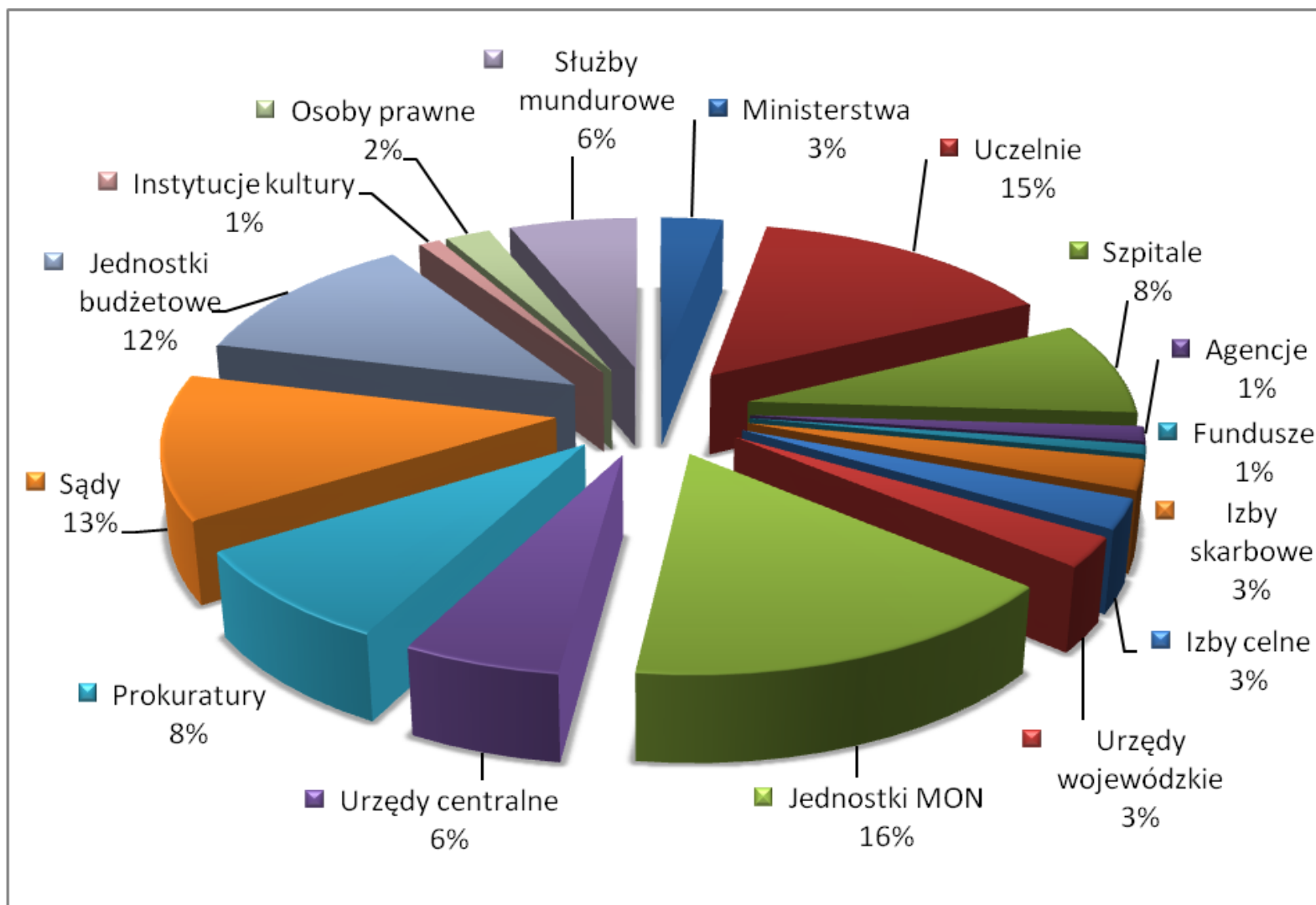
We recommend to select PFSE's for assessment of internal audit from control group No. 5, featuring close assignments or organization or organizational and legal form, abbreviated name of the group, assignment / organization, selected for the Report: Benchmarking of internal audit in public finance sector units.

Subjective scope of assessment

- From 16 groups presented on the graph below, Courts of Law were excluded (based on Article 292, par. 1 point 2 of the Public Finance Act)
- From the remaining 15 groups, 3 organisational units were selected from each group. Total number of PFSE's included in the assessment in 2012: 45.
- Selection of 45 PFSE' was made upon determination of specific criteria for selection and was documented in the appendix to the evaluation plan.

Subjective scope of assessment

Chart: Government entities by task or legal form



Objective scope

Limiting the objective scope of internal audit assessment, to selected, most significant areas / processes in terms of efficiency and effectiveness of internal audit, will first increase the number of PFSE's subject to the assessment, second - will make it possible to carry out a detailed analysis of given area / process, which in turn will translate into the ability to draw conclusions on effective and efficient operation of the entire area (based on 45 PFSE's), as well as to develop guidelines for the assessed area, identify good practice and present activities that are considered to be inefficient and ineffective.

Objective scope

Focusing the objective scope on the selected areas, while increasing the number of PFSE subject to assessment should also translate into more effective impact of coordination element, i.e., the assessment, on PFSE's

Objective scope

Areas relevant to the audit function, such as planning annual audit, implementation of assuring tasks, advisory activities.

Initial recommendation for areas / issues to be covered in the 2012, in 45 PFSE', includes:

- Evaluation of the method of identification and assessment of risk for the purpose of audit plan preparation for 2012,
- Evaluation of the method of scheduling selected tasks, implemented in 2011 /2012, in particular, in the scope of determination of the objective, scope of an assignment as well as criteria for evaluation of facts.

Criteria for evaluation of the programming process of selected audit assignments implemented in 2011-2012

EFFECTIVENESS (target implementation)

EFFICIENCY (way to achieve the TARGET)

SUITABILITY (to meet needs / expectations of the Minister in charge of a department/unit manager)

Thank you for your attention

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