

Evaluating Development of Internal Audit in Transition Countries

Two Assessment Frameworks

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Overview of the Presentation

1. Why Assess Internal Audit Development in Transition Economies?
2. The use of Frameworks: Lessons Learned From Other Countries' Experience
3. The Frameworks: An Overview
4. The Environmental Framework Model
5. The Internal Audit Capability Model
6. Conclusion

1. Why Assess Internal Audit Development in Transition Economies?

World Bank Motivations:

- ✓ Need to Gain Understanding of Success Factors and Relation to Overall PFM Reforms
- ✓ Support to PFM reforms Needs Better Focus
- ✓ Commissioned Study in 2005

2. The use of Framework: Lessons Learned From Other Countries' Experience


- ✓ Good and Very Good Performers Started at Base Level
 - The EU Accession Experience:
Lithuania, Latvia, Slovakia, Hungary
 - Canada, the UK, the US
- ✓ We Can All Learn From Their Experience!

3. The Frameworks: An Overview

- ✓ Stage 1. Evaluate the situation in a country

 ***The Environmental Model***

- ✓ Stage 2. Assess capability and effectiveness of internal audit units

 ***The Internal Audit Capability Model***

4. The Environmental Framework Model

A. Definition and Coverage

B. Steps For Completing it

C. Impact of elements within the Environmental Framework

D. Applying the Environmental Framework Model

A. Definition and Coverage

Assessment against five main groups of factors broken down into 26 individual elements present in the EU8 Countries' history of IA

- A. National Governmental development and reform
- B. Ministerial/cultural
- C. External audit/control
- D. Internal audit/professionalism
- E. Critical drivers/success factors for internal audit

B. Steps For Completing it

1. Discuss/describe each of the 26 elements
2. Evaluate the elements, using the indicators provided
3. Give a score to each element
4. Total the individual scores
5. Final score indicates which level a country has reached

C. Impact of elements within the Environmental Framework

- ✓ X factors - important
- ✓ Y factors – vital support
- ✓ Z factors – absolutely core to success!

D. Applying the Environmental Framework Model

- ✓ **Level 1.** Conditions not present for development of internal audit
- ✓ **Level 2.** Conditions marginally developed
- ✓ **Level 3.** Conditions in good stage of development
- ✓ **Level 4.** Conditions present

5. The Internal Audit Capability Model (IACM)

A. Definition of Internal Auditing

B. Elements of the IACM

C. Applying the IACM

A. Definition of internal auditing (1)

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

(1) Institute of Internal Auditors

B. Elements of the IACM

- ✓ Internal audit environment
- ✓ Professional standards
- ✓ Organisation
- ✓ Human resources
- ✓ services

C. Applying the Internal Audit Capability Model

- 1. Entry/beginner level – no standards
- 2. Generally operating along lines laid down by management
- 3. Meets some IIA standards
- 4. Meets most IIA standards
- 5. Mature –world class, best practice.

**6. Conclusion: Is it
unrealistic for transition
countries?**

NO!

Geared to achieving *reasonable*
not absolute compliance with
international standards set by the
Institute of Internal Auditors (IIA)

Progress has to be made in stages

Remember!

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