



- R E P O R T -

**13th PEM PAL Internal Audit Community of Practice (IA COP) – Ohrid, Macedonia
(October 25-29, 2011)**

1. Background

Members of the IA COP met in Ohrid, Macedonia in October for a plenary meeting. The IA COP event brought together 67 participants from twenty countries including PEM PAL members (Albania, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Romania, Russia, Tajikistan, Ukraine, and Uzbekistan) as well as Hungary and Estonia (invited for experience sharing). Resource people, translators, representative of PEM PAL Secretariat and an event facilitator also attended the event. Arman Vatyan was the event lead representing the WB. Jean-Pierre Garitte and Joop Vrolijk represented OECD/SIGMA at the event.

2. Objectives of the plenary meeting

The objectives of the plenary meeting were to:

1. Involve all participants in an active exchange of ideas and information to facilitate the process of learning from other countries' experience in advancing the reforms of public sector internal audit, and continue developing the CoP as a dynamic learning partnership.
2. Present and discuss the Internal Audit CoP working groups' recent achievements, including distribution of:
 - Good Working Practice Internal Audit Manual Template for the public sector (version 1, 2011) and
 - Good Working Practice Training Programme for operational internal auditors in the public sector (version 1, 2011).
3. Share the CoP's collective experience and provide advice on the topics related to operation of internal audit in Macedonia (through the country clinic).
4. Analyse current methodology and work practice of IA units annual reporting to central harmonization unit (CHU) and share experience and community recommendations on good practice.
5. Draft and approve the IA CoP Plenary Communiqué based on the plenary discussion and agreements reached.

3. Introduction and update since the previous meeting

The meeting was opened by chair Tomislav Mičetić, Ministry of finance, Croatia, who welcomed the participants in the 13th plenary meeting in Ohrid, Macedonia. He provided updates since the previous meeting and presented plans for future activities. Arman Vatyan, WB reported on progress with IA reforms in IA CoP countries. Majority of countries showed significant progress in developing the IA legislative framework and in the field of internal audit procedural framework. With regard to legislative framework 80% of countries have drafted and/or adopted IA Law and bylaws since 2007. Also illustrative is the data that since 2007 in 30% of countries,

internal auditors in the public sector have been appointed (those are the countries where there was no internal auditors before). In the rest of the countries the total number of internal auditors was increased by 93% since 2007.¹

Participants of the Ohrid meeting were also welcomed by Mr Nedim Ramizi, Deputy Minister of Finance of the Republic of Macedonia. He expressed expectation that the conference will help in solving some of the challenges Macedonia faces in the field of internal financial control system and in particular internal audit in the public sector. With awareness that development of these systems is a complex task to be implemented in practice he expressed Macedonia's appreciation for the possibilities to exchange the experience with the other countries. He also expressed Macedonia's will to share the experience, that Macedonia acquired by developing the public internal control and internal audit system with hope that these experience will be helpful to the countries, in avoiding certain difficulties when implementing public internal financial control.

4. Good Working Practice Internal Audit Manual Template for the public sector (version 1, 2011)

Jean Pierre Garitte, OECD/SIGMA updated full plenary on work that was done on the Manual until the plenary meeting in Ohrid. The development of the good practice Manual started in Bled Slovenia, in 2010. There the skeleton of the Manual was elaborated. In Chisinau, Moldova in June 2011 more detailed draft version was developed. In Ohrid the version 1 of the manual was presented.

The process of elaboration of the Manual was a joint work of OECD/SIGMA and IA CoP participants. Jean Pierre Garitte, OECD/SIGMA expert made first draft of text and facilitated development process. During the process of elaboration comments and ideas of IA COP participants were included into the Manual.

Internal Audit Manual work group leaders Albana Gjinopulli, Albaina; Ljerka Crnković, Croatia and Jasenka Mičetić, Croatia briefly presented chapters of the Manual and the work that was done on improving its content. Ljerka Crnković explained that huge work is behind but small changes were done after work of Jean-Pierre Garitte.

Even though version 1 is ready and available, manual is on-going product. Group working on the manual followed to make recommendations for version 2 of the manual. Each of the eight tables was assigned one chapter of the manual. Participants at tables examined assigned chapter in detail. Participants agreed that the manual is an excellent material, which can be used not only by specialists of CHU to work on the national leadership's internal audit, but also for practicing internal auditors and the heads of internal audit.

5. Good Working Practice Training Programme for operational internal auditors in the public sector (version 1, 2011)

Marija Matek, Ministry of finance, Croatia presented work that was done on training and certification programme at the IA COP workshop in Moldova in June 2011 including the syllabus of the programme that was developed.

Table discussion on the training and certification programme followed. Participants at each table discussed what is still missing and what is not supposed to be included into the programme with the objective to get recommendations for next steps in elaboration of the programme. Each table presented its recommendations about the discussed topic.

Key messages of participants, also a part of CoP's communiqué, are:

- That the formed training and certification system of internal auditors contains mandatory and optional topics required for effective training of internal auditors.

¹ More about the progress made in each country since the previous meeting can be found in the Chapter 8: *The progress made in each country since previous meeting by plenary participants.*

- That it is necessary to pay equal attention to issues of public internal control, and standards and methodology of internal auditing, as well as the simulation of internal audit with the assistance of mentors.
- That this version of the training and certification system needs further improvements, particularly it should be added a clear definition of user groups and expected objectives.

6. Macedonia case clinic

Panel: Role of the financial inspection (legal setup, functions, roles) and relation with internal audit

To stay updated about the theme Joop Vrolijk, OECD/SIGMA reported about the conclusions of the second regional conference on the role of financial inspection in relation to internal audit, which was held in Portorož, Slovenia from September 21 to September 23 2011. Trajko Spasovski, Ministry of finance Macedonia presented Macedonian case study "Role of financial inspection (legal setup, functions, roles, role of the IA in relation to fraud and corruption) and relation with internal audit" to set the context and define open issues and questions.

The fishbowl discussion with an aim to probe issues, share stories and make suggestion followed. The objective was to draw on the collective experience and insights of all members in considering the challenges facing Macedonia. The discussion was fruitful and set a path towards a consensus about the difference between internal audit and inspection.

Participants came to an end that financial inspection does not exclude, but rather could effectively complement to the implementation of internal audit, as directed on revealing and suppression of evidence of financial irregularities and fraud. Cooperation between internal audit and inspection can be mutually beneficial if they inform each other properly and with proper separation of tasks which should be determined in the national legislation (Source: IA CoP Communiqué Ohrid, 2011).

7. Internal Audit reporting to Central Harmonization Units

Joop Vrolijk, OECD/SIGMA expert made an introduction to the topic with the presentation of IA annual reporting to CHU. Presentations of two country examples followed. Ljerka Crnković Ministry of finance, Croatia presented Croatia's example of internal audit reporting to CHU and Evelin Pungas, Ministry of finance, Estonia presented Estonian system of internal audit reporting to CHU. The objective was to share the experience of partner countries, analyse current methodology and work practice of IA units annual reporting to CHU and share experience and community recommendations on good practice.

Afterward table discussions on the following questions followed:

- What are the challenges of implementation of reporting structure in your country?
- What are the similarities and differences in terms of content, methodology and transparency?
- How do you report? What are the best practices for reporting in your country?

Each table discussed one of the questions. Regarding to the number of tables which was eight two or three tables discussed the same question. Information on countries regarding IA reporting was exchanged among participants. As a result of discussion participants identified strengths and weaknesses of the current reporting system to CHU and consolidated reporting practice to the government/parliament.

8. IA CoP Plenary Communiqué

There were four leadership groups each taking responsibility for one aspect of the overall event.

- Agenda activist responsible for shared learning agenda.
- Critical friends responsible for critically reflecting on the process.
- Social reporters responsible for creating a shared memory of the meeting.
- External messengers responsible for crafting a communiqué for external stakeholders.

External messengers crafted a communiqué which will be attached to “thank you” letters sent after the event.

9. The progress made in each country since previous meeting by plenary participants (Source: Internal Audit CoP wiki page)

Macedonia has the PIFC law and is currently working on the financial inspection law. The implementation of the *twining project* with Netherlands on internal audit and internal control is underway.

Bosnia and Herzegovina - federation formed the CHU in the year 2010. BiH has three CHUs: on the state level, on the federation level and in the Republic of Srpska. All three levels formed the coordination board and they are working together on the charter template, on manuals, on code of ethics. The IA standards are done independently. Until the end of the year the sub legal acts should be drafted. There are 62 budget users on the federation level, 10 of them are having the internal audit. They have also 10 cantons and 84 municipalities and cities. Criteria for internal audit establishment are defined by the rulebook for budget users on internal audit.

Croatia has changed and updated the IA Manual in the version 4 at the end of last year and put into force new guidance for continuous development of internal audit. This year there are three new groups of 20 internal auditors trained for getting the certification.

Ukraine is momentary working on training for internal auditors and further development of legal and sublegal framework for internal audit.

Moldova developed law in internal control that is currently in parliament and would be in force by the beginning of 2012. PEM-PAL helped in development of this law with various examples.

Bulgaria CHU started to make external assessment of their internal audit units and they are currently working on the amendments of national standards based on the changes in IPPF.

Kosovo developed and passed new PIFC policy 2011-2012 and made the new version of IA Manual. 32 auditors were certified. Auditors performed 11 pilot audits.

Montenegro has developed 3rd version of IA Manual and is currently implementing the IPA project for internal audit.

Georgia is drafting the PIFC law and risk management methodology.

Romania is updating the IA law and new ordinance on quality assurance.

Estonia is going towards the CGAP certification.

Armenia developed code of ethics and legal act for state inspection.

10. New working group proposals and new topics identified

10.1 New working group proposals

1. Risk assessment (link with IA Manual ver.1.)
 - For individual audit
 - For strategic planning
2. Internal Audit Quality Assurance

- Internal
 - Link with IA Manual ver.1.
- External
 - Link with IA Annual reporting to the CHU

10.2 New topics identified

- Quality assurance in one person IA Unit
- Minimum criteria for establishment of internal audit
- Internal Audit Opinion on Internal Control system
- Procedure and good practice in handling fraud/corruption/irregularities
- Building partnership with management
- Relation IA with Financial management function and Financial departments
- Matrix-comparison (differences between financial inspection, internal audit, external audit)
- Forensic auditing
- Training of trainers
- Marketing tools for CHU
- Management capacity building
- Managerial accountability and PIFC
- Managerial accountability
- Management control models
- Decentralized vs. Centralised model of management – role of IA
- Audit committee in public sector
- SIGMA paper on AC in transition countries
- Operational auditing

11. Next IA COP events

The schedule of future events includes:

- (i) The 14th and 15th working sessions on IA Manual and IA T&C tentatively from April 25-27 in Sofia, Bulgaria.
- (ii) Quality Assurance (QA) working group meeting from June 14-15 2012 in Budapest, Hungary and the 16th plenary meeting of IA COP from June 18-20 2012 in Budapest, Hungary.