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Dritan Fino, Head of CHU for FMC: Implementation of a modern Financial Management and Control System and Public Financial Inspection in Albania

Since September 2014 there has been an IP project ongoing in Albania, regarding the implementation of a modern FMC system in Albanian institutions.

This is a twinning project between Ministries of Finance of Austria, France and Albania financed by IPA funds. The project is composed of two components as follows:

- Implementation of Financial Management and Control;
- Implementation of Public Financial Inspection.

The main focus of the project has been FMC implementation, but under component one some activities have also been focused on IAt trainings.

Overall objective of this project is the contribution to the effective, efficient, transparent and accountable use of public funds in order to achieve the objectives of the government.

The specific objective of the project is the implementation of a modern system for the FMC and Public Financial Inspection in the main public institutions in Albania.



Steering Committee meeting

The project is implementing the FMC concepts in three line ministries and four municipalities.

The following main activities have been carried out so far:

1. Review of legal and sublegal basis.
2. Implementation the FMC tools in pilot institutions (such as, book of processes, risk matrix, action plan, etc.);
3. Organization of the awareness raising seminars regarding the importance of implementing a FMC with top level management in central and local institutions;

4. Increasing capacities of CHU, large scale trainings of internal audits, and public financial inspectors.



Petru Babuci, head of CHU for FMC and Cristina Scutelnic, senior specialist of CHU for PIFC unit: Moldova's latest developments in harmonizing the activity of Financial Departments in central Government with FMC principles

What was in the past?

In the past the Financial Departments within the Central Government were seen as accountants. There was no model of internal regulation which would integrate the whole spectrum of responsibilities. The activity of financial departments was based only on Accounting Law, Budgetary Law and Normative framework on accounting and budget developed by Ministry of Finance.

What we have done

Now, there is a Government decree in force on the activity of financial services, approved in July 2015. The idea of this Government decree is that financial departments are more than just accounting. Financial departments play a crucial role in setting financial management and control system.

The present Regulation is an integration of managerial control responsibilities and financial management in financial department's tasks, in each of the following processes:

- 1) budget development;
- 2) budget execution;
- 3) accounting;
- 4) economic and financial counseling;

Ministry of Finance is responsible to organize trainings and other activities in relation to the implementation of Government Decree.

In this respect, Central Harmonization Unit, along with Budget and Treasury Departments are working together for the capacity building of Financial Departments. The following activities have been performed:

1. workshops for the initial assessment of current status,
2. meetings to identify the problems in implementation,
3. seminars held by Dutch experts as related to best practices in budgeting, accounting and internal

control.

Thus, financial departments are seen to have more decision power in terms of consultancy regarding economy and efficiency of money spending, coordination of financial planning and managerial controls (such as risks and flow charting).

Future plans

Ministry of Finance intends to perform workshops and training activities to help financial departments to implement the Government decree.

Therefore, with the help of Dutch experts, it is planned to increase their role in implementation of the current and future PIFC strategy and specifically, to link the activities of the Policy and Planning departments with Financial Departments.

We foreseen as a challenge coordination of the activities in order to ensure the synergy between current budget / accounting and PIFC reforms.



Edit Nemeth, chair of IACOP, head of CHU, The latest developments in PIC in Hungary

The Hungarian Government is committed to the fight against corruption and strengthens the integrity of public administration organs and government officials. Therefore many changes have occurred in the last few months due to the development of system integrity. In the light of these aspirations there was a demand to harmonize among regulation of the internal control system and the internal measures for the prevention of corruption for the organizational operation as a whole. So first of all expert working group established in order to implement the above task entirely. As a first step experts has declared the close relationship between the government decree of integrity management and the government decree of public budgetary organizations internal control system and internal audit as a principle. This has even led to the unification of terminology used by the two regulations. During the modification work was a fundamental aim to avoid duplication and the harmonization of two decrees. The 'threatening event of organization's integrity' has been defined using in the broadest sense of integrity which includes bias of written and unwritten rules and other value-based rules also. Earlier the regulations used the terminology of 'irregularity', but in the widest sense of integrity it was not wide enough. This was the foundation stone of the two decrees reconciliation. Since the integrity is one of the COSO model's 17 basic principles used to describe the internal control system. Along this new procedure has been introduced: treatment procedure of threatening event of organization's integrity, which covers the procedure of irregularities, corruption and also the violation of ethics.

Between these two decrees there was parallelism what kind of risk should manage. The parallelism has managed to eliminate with the introduction of the 'integrated risk management system' which emphasize that risk management should cover the organization's all activities and risks.

In order to facilitate the practical application has been prescribed the obligation of structuring and identification of process by management. Another new element of the regulation is that process-owners should be designated by head of organization. These requirements previously only appeared on the practical guidance level, but the experience showed that it was not applied properly. The assessment and systematization of processes are key success factors in implementation of internal control systems as they provide the basis for the integrated risk management, elaboration of audit trails and the monitoring system among others.

Further new action is the obligation of designation of a person who responsible for the co-ordination of integrated risk management system, who cannot be the internal auditor. Accordingly, this coordinator becoming key players in the operation of the internal control system.



Giuli Chkuaseli, head of PIFC department: Managerial Accountability and Public Internal Financial control in Georgia

The public sector plays a major role in society. In order to fulfill its wide range of functions, the public sector must have appropriate managerial accountability within the institutions. The managerial accountability is a complex and sophisticated system but it is one of the Key Principle of Good Governance in the Public Sector. Main challenges of implementation of good managerial accountability are different: rearrangement of organizational structures, clear understanding of who are managers and what they manage, legislative constraints, setting "right" objectives and so on. Government who is devoted to have a result oriented environment by enhancing or maintaining core principles of program-budgeting, it's vital to design robust internal control system which will be based on internationally recognized principles and good practices. Implementation of program-budgeting has been started in 2011 in Georgia, so internal controls should be designed in a way that ensures best the achievement of goals and objectives of organizations, that will improve organization's performance and Manage risks associated with it's business processes. Of the two elements of PIFC reform, Georgia started to develop internal audit first,

rather than FMC, because FMC is not a wholly technical reform in the way that the introduction of internal audit is. It is very complex and does depend on other reforms very much. For example, in Georgia it requires integration with public administration reform and how that reform develops will in turn affect the development of FMC. It is designed to promote managerial culture; it does represent a radical change to public service organizational arrangements and requires a change from a traditional administrative to a managerial approach to the delivery of public services and activities.

However High quality internal audit is a prerequisite of efficient, effective and economical use of resources and strengthens accountability, as Internal audit is intended to assess 'value for money' principle in the public sector entities, which is also one of the core principles of FMC.

For above mentioned purposes and taking into consideration the difficulties of implementation of internal control system in Georgia, with the assistance of OECD/SIGMA experts we developed a three stage implementation process, on the basis of 'Gap Analyses of PIFC system' conducted by also OECD/SIGMA experts. Those 3 stages are:

Stage 1: The development of internal financial control arrangements;

Stage 2: The development of managerial control arrangements;

Stage 3: The development of financial management arrangements.

**Njegoš Pavlović, assistant director
of CHU, Bosnia and Hercegovina
Information on FMC**

Concept of PIFC (*Public Internal Financial Control*) means:

- CHU (*Central Harmonization Unit*),
- Internal Audit (IA) and
- Financial Management and Control (FMC).

CHU – functionally established in all three levels of governance in BiH (institutions of BiH and two entities: Federation of BiH and the Republic of Srpska). It is also established a body responsible for coordination of activities and legislation in the field of PIFC, the Coordination Board of CHU. Board members are heads of CHU. Currently, one of the main tasks is also adoption of the Strategy on PIFC until 2018. The Strategy is adopted in the level of entity of Federation of BiH, while in the levels of the Republic of Srpska and Institutions of BiH is in the process of adoption. The Strategy should be focused, among the other goals, on connection of strategic and medium term planning with the process of medium term and annual planning of the budget, improvement of legislation in the field of FMC and IA, enhancement of capacities for development of FMC and IA, as well as on increase of results and activities quality of IA.

Internal Audit (IA) is established in all three levels of governance. It has been adopted relevant laws on internal audit in all three levels of governance, as well

as subordinate legislation (Manuals, Methodologies, Rulebooks, Code of Ethics, Decisions etc), by which is regulated this area. Annual consolidated report on internal audit has been prepared and announced every year for all levels of governance. It has been made significant progress in this area. Challenges are the forthcoming completion of the process of establishing internal audit units and employment of internal auditors, as well as improvement of the process of reporting and realization of recommendations. All acts in this field, as well as annual reports are available on the web portals of CHU.

Financial Management and Control (FMC)

Legal basis for FMC exists in level of institutions of BiH, which regulated this area by law in 2012, while in entities' level is the following situation: in the Republic of Srpska the procedure of adoption of laws which are going to regulate this area is in the process but in Federation of BiH the Law on FMC in public sector was adopted in May 2016.

The main characteristics of FMC system are the following:

- Management based on principle of "Value for money",
- Accountability of management in all levels, which means the establishment of adequate organizational structure, inside which are clearly defined lines, authorization and responsibilities in all management levels and that have to be strongly established, transparent and strictly applied,
- Systemic approach and understanding of controls, which means that systems of financial management are based on five interconnected components.

FMC is carried out by five interconnected components of internal controls based on COSO model that includes: control environment, risk management, control activities, information and communication, and monitoring and evaluation.

Except the Law in the level of institutions of BiH this field is also regulated by:

- Manual on financial management and control in institutions of BiH,
- Standards on internal control in institutions of BiH,
- Guidelines for implementation of the process of risk management in institutions of BiH,
- Manual on annual reporting on FMC system in institutions of BiH,
- Decision on announcement of the form and content of the annual report on FMC system in institutions of BiH.

CHU also prepares and announces the Annual consolidated report on FMC system in institutions of BiH. Reports, as well as the mentioned legislation