

CHU Challenges Working Group Meeting, October 20, 2020

Monitoring the Internal Audit Activity - Sharing Experience among PEMPAL Countries

(a) Background

1. PEMPAL IACOP continues to support member countries in implementing modern and effective internal audit systems. One of the IACOP working groups is focused on the challenges of Central Harmonization Units (CHU) at different stages of reform.
2. The new CHU Working Group (CHU WG) held its first virtual meeting on October 20, 2020 to discuss the CHU monitoring function and the specific challenges and opportunities of monitoring the Internal Audit (IA) activity in the public sector¹. The meeting was limited to only PEMPAL member countries and the resource team with in total 32 people attended from 20 countries.

(b) Objectives and structure of the meeting

3. The objectives of this first meeting were to:
 - Present the results of responses to a survey on how the monitoring of IA activity is performed in the public sector of PEMPAL members countries;
 - Explore the links between CHU monitoring of the IA function and the IA standards, the Quality Assurance Improvement Programme, and Key Performance Indicators.
 - Identify and discuss the challenges and opportunities of the CHU in monitoring IA activity in the public sector.
4. The CHU WG presented the responses of 22 countries² to a survey on CHU monitoring of IA units.
5. The survey underlined the importance of the monitoring of IA activity, which was undertaken by 18 of the 22 countries responding and was a legal requirement in 16 of these countries. Half of the countries had been doing this for over 10 years and the CHU was the main actor in monitoring IA units in most PEMPAL countries. The full presentation is available at pempal.org.
6. After a short discussion of the results of the survey, the meeting split into three subgroups to consider the following:
 - Monitoring Internal Audit - the why, who, what, when, and how?

¹ The agenda for the meeting including all the speakers is at https://www.pempal.org/sites/pempal/files/event/2020/Internal%20Audit%20COP%20Events/Oct20_Videoconference/files/pempal_iacop_sit_-_ia_monitoring_-_agenda_eng.pdf

² Albania, Armenia, Austria, Bosnia & Herzegovina, Belgium, Brazil, Bulgaria, Croatia, Czech Republic, Georgia, Hungary, Kosovo, Kyrgyz Republic, Moldova, Montenegro, North Macedonia, Poland, Romania, Russia, Serbia, the Netherlands, and Ukraine.

- Monitoring Internal Audit – what are the links to Auditing Standards, Quality control processes and Key Performance Indicators.
 - The challenges and opportunities for CHU’s in monitoring IA. How can monitoring of IA be improved?
7. Each of the three sub-groups reported back to the plenary on the issues and key points raised during their interactions. This generated a wide range of views related to monitoring of IA work as well as the role and **maturity** of the CHU more generally.
 8. The meeting finished with concluding comments from the IACOP leaders and experts.

(c) Key conclusions

9. Overall, this first meeting of the CHU WG:
 - **Reinforced the need for a PEMPAL forum to discuss the challenges facing CHUs.**
 - **Underlined the relevance and importance of the CHU role in monitoring Internal Audit activity** including: the need for a balance of qualitative and quantitative monitoring data and a mix of self-assessment and independent assessments of quality; and the benefits of range of quarterly, annual and periodic assessment tools.
 - **Identified significant challenges for CHUs in undertaking this role**, including the skills and experience of CHU staff and the need for the role of the CHU to evolve and as Internal Audit becomes more firmly established.
 - **Suggested that there is a need to revisit the role of the CHU role** with a shift from “**baseline and policy level activities**” such as establishing the legal and methodological frameworks for effective internal audit towards an “**operationally focused role**” where the CHU works more as a coach and a centre of excellence in support of front- line IA units.
10. See Annex A for details of issues discussed.

(d) Next steps

11. There were several questions and conflicting views shared during the meeting which will be elaborated further. The ExCom will continue the dialogue on monitoring IA activity during the next meeting of the Working Group planned for 2 November 2020.

Annex A: Detailed comments made during the presentation

(i) Why should CHU Monitor IA units (purpose)?

- *To ensure independence (and sufficiency) of IA in the public sector. Monitoring is used to identify issues and propose corrective measures to guide the reform*
- *To provide a basis for reports to stakeholders on progress in the reform of IA and raising awareness of IA*
- *To know how the IA system works in practice (current maturity level) and what should be done next to progress the reform*
- *To identify good (best) practices*
- *To identify weaknesses and the way to address these, e.g. methodological development and/or increasing expertise*
- *To aid the development of audit methodology.*
- *Note that Monitoring is a tool to improve effectiveness of IA not a goal in of itself.*

(ii) Who should monitor IA (key players)?

- *In the short to medium term it should be a CHU or a similarly constituted body in central government with the capacity to develop audit methodology, review the implementation of standards and identify and promote best practice.*
- *In the longer term, some of the oversight roles of CHU monitoring could be undertaken by an Audit Committee.*
- *However, the CHU is likely to continue to have a key role in monitoring IA units in a decentralized IA system.*
- *CHUs should be well positioned within central government (usually in the Ministry of Finance) with authority to be able to conduct effective monitoring.*
- *Internal auditors from IA units to be involved as well with due consideration of the conflict of interest.*

(iii) What should be monitored (scope)?

- *In terms of entities, the scope should include all decentralized IA units in central government and may also cover IA at the sub-national level.*
- *Monitoring areas should include:*
 - *Audit work undertaken:*
 - *Planned and actual audit & consultancy assignments;*
 - *Recommendations made, agreed and implemented;*
 - *Length and average costs of audit assignments*
 - *Methodology used during audit work*

- *Audit documentation and reporting of findings.*
- *External monitoring by CHUs may provide additional assurance on the quality of IA work.*

(iv) How should monitoring be done?

- *By questionnaires to IA unit heads:
 - *CHU should develop Quantitative and Qualitative KPIs to monitor how well IA units are performing.*
 - *Key performance data should be collected every year to track progress over time**
- *By stakeholder surveys to measure stakeholder satisfaction.*
- *By on the spot reviews*
- *By reports of internal self-assessments and external validation – result is saying to the minister of Finance/government that we follow the standards.*
- *Note that Quantitative information (e.g. how many audits) is absolutely necessary but try to include a lot of qualitative measures, using feedback from audit clients.*

(v) When should monitoring take place?

- *Surveys at least once a year to generate data to support an Annual report by the CHU on IA effectiveness*
- *On the spot reviews periodically (once in 3 years or even in 5 years, in line with CHU monitoring standards)
 - *CHUs should look to only examine a proportion of IA units each year to complement annual survey results.*
 - *CHUs may also carry out on the spot reviews in response to complaints from auditees**
- *In terms of reviews of quality:
 - *Self-Assessments by IA should take place every year*
 - *Independent assessment should take place every 4-5 years.**

(vi) What are the major Challenges?

- ***The need to improve CHU capacity*** *in terms of number and skills of staff and IT support tools available. CHUs need real professionals who know both theory and practice.*
- ***The need for a mix of general surveys and on the spot monitoring*** *to enable in-depth analysis and a clearer picture of what is happening in reality.*

- **Significant and constant change** in the external political environment, policies and practices, and staffing of CHUs and IA units.
- **The need for better methodological guidance** for CHUs on monitoring IA activities which is related to the maturity of the CHU
- **The difficulty of generating data on the quality of IA activity**, customer satisfaction to balance the quantitative data available

(vii) What opportunities exist to improve?

- Use monitoring data to **raise awareness of the needs of IA units** with Parliament and Ministers.
- **Reduce the amount of information collected by CHUs** to the information which is really needed and will be used. **Reduce bureaucracy.**
- **Promote the benefits of regular Self-assessment of IA activity** with periodic external validation
- **Understand better the links and difference between quality assessment and external monitoring**
- **Develop a maturity model for CHUs** which clarifies the role and purpose of the CHU as the IA function matures in each country