

Synergy of public internal audit with PAR and PFM reforms

PIFC Compliant Financial Inspection and its link with PFM reforms

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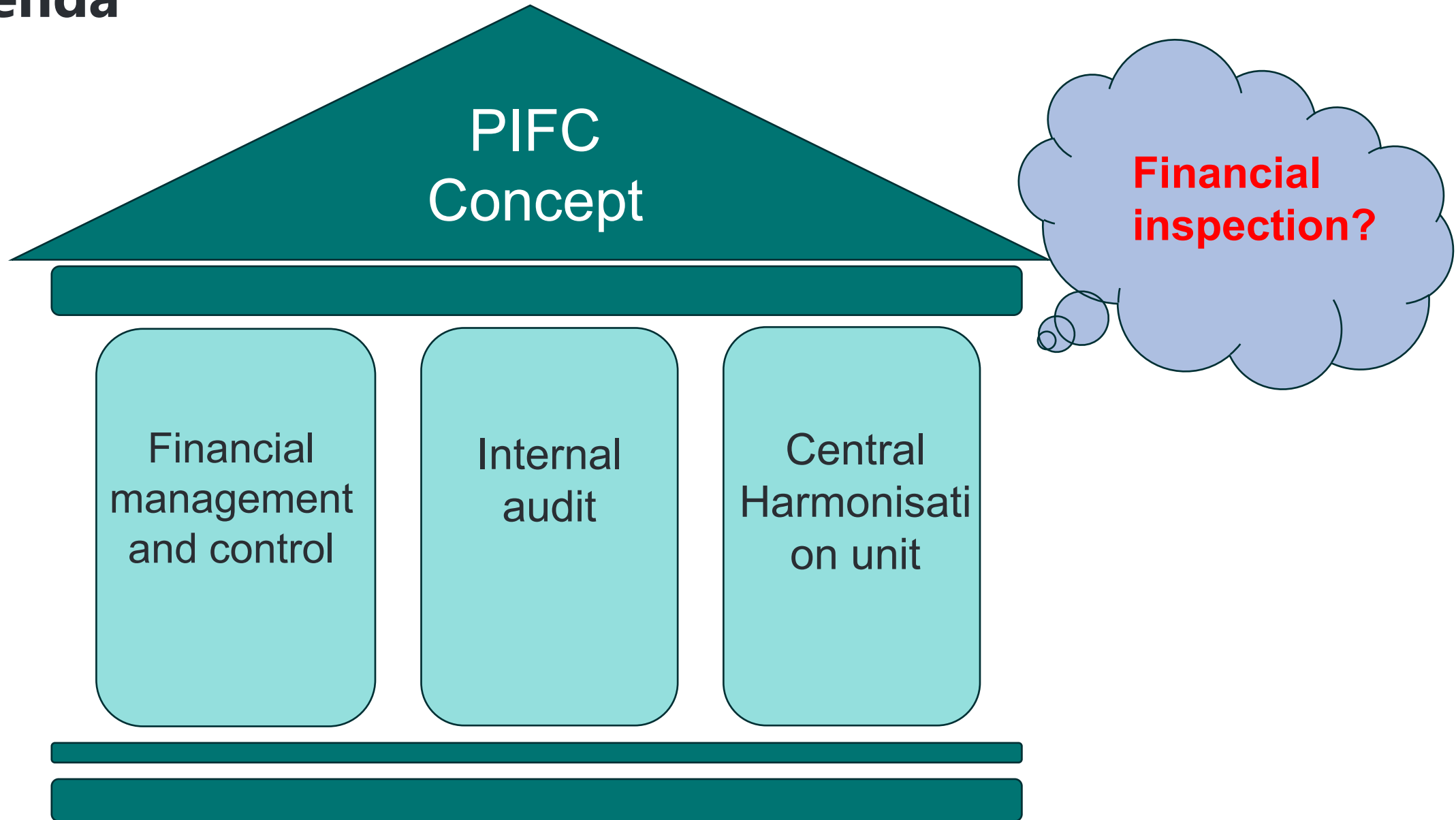


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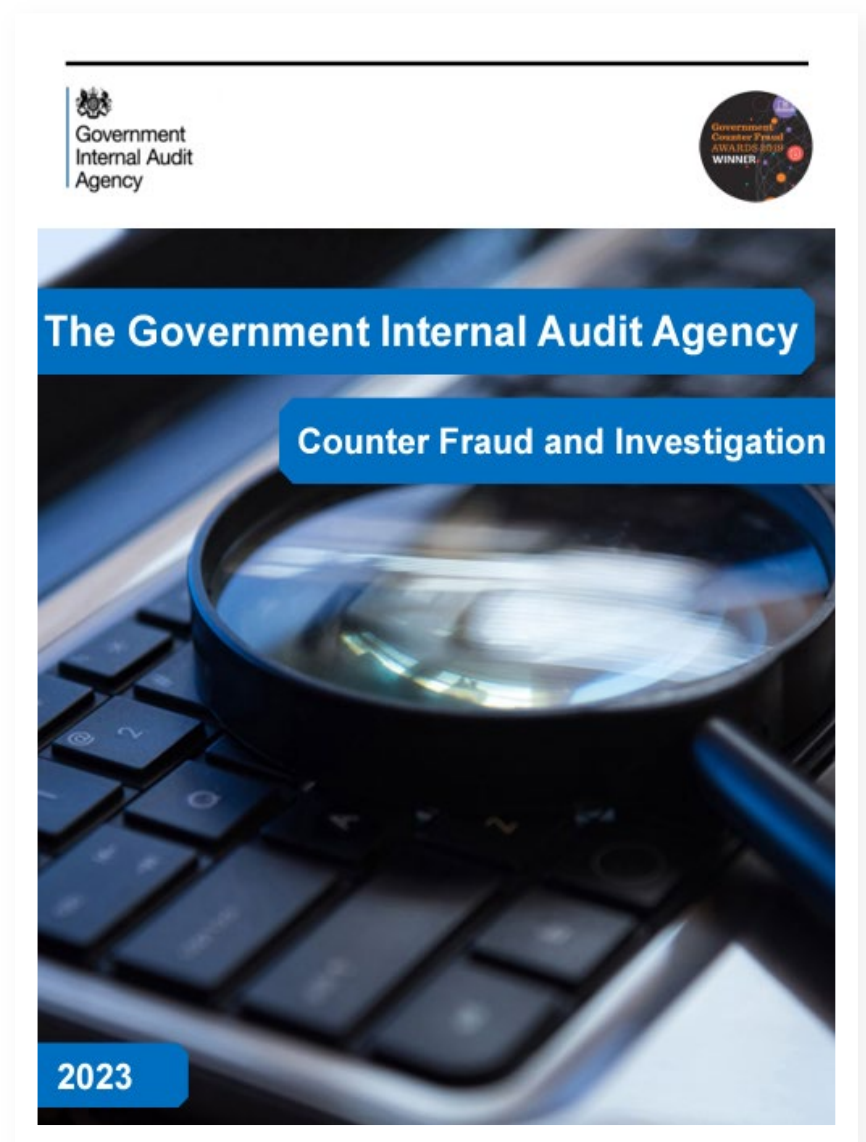
Financial Inspection and the PAR, PFM and PIFC reform agenda





Financial Inspection and the PAR, PFM and PIFC reform agenda

- > Not realistic to move straight from financial inspection to internal audit
- > Some countries see added value from maintaining financial inspection in conjunction with internal audit
- > Other countries where internal audit is embedded have functions that have similarities to financial inspection
- > If retaining a financial inspection function the main challenges to implementing the PAR - PFM reform agenda
 - > **The development of internal audit (and accountability and management) is not hindered**
 - > **Financial Inspection adds value**
- > Principles of Public Administration - Principle 27
“Where financial inspection exists, it is complementary to the role of internal audit”





The reform challenges and risks

Challenges and risks to be managed as you move to an environment where internal audit is being effectively implemented

Clarity of roles



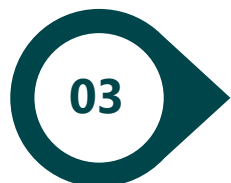
Financial Inspection not properly focused on the investigation of fraud and major financial irregularities. Does other things like focus on minor cases, assessing efficiency etc

Awareness and understanding



Managers regard internal audit as another form of financial inspection and do not understand the different roles

Overlap and duplication



Overlap of scope of activities, no effective coordination and communication

Well-Managed



The change from financial inspection to an environment where financial inspection and internal audit are operating, needs to be properly managed



The Financial Inspection Guidelines



1. The ex post control function of financial inspection should only check cases of serious mismanagement, suspected professional misconduct, irregularities, suspicions of fraud and corruption



2. Financial inspection should only check compliance with laws, regulations, rules and national and international agreements



3. Financial inspection should cover the entire state budget



4. Financial inspection should be a reactive control activity



5. Financial inspection should be a centralised, professional control function



6. Financial inspections should use tools to prioritise subjects for inspection



The Financial Inspection Guidelines



7. Financial inspectors should have unlimited access to premises and documentation of the inspected entity



8. Financial inspection should have the possibility to hold wrongdoers liable administratively



9. Financial inspection should report to the entity inspected and to the institution responsible for that entity



10. Financial inspection should routinely follow up on requests to address violations of laws or regulations



11. Financial inspection should co-operate with functional national and international



Guidelines in practice

Results from seven countries reviewed in 2021 where financial inspection existed

5 guidelines met fully

- **2.** Financial inspection should only check compliance with laws, regulations, rules and national and international agreements
- **3.** Financial inspection should cover the entire state budget
- **4.** Financial inspection should be a reactive control activity
- **7.** Financial inspectors should have unlimited access to premises and documentation of the inspected entity
- **8.** Financial inspection should have the possibility to hold wrongdoers liable administratively

3 guidelines partially met

- **5.** Financial inspection should be a centralised, professional control function
- **9.** Financial inspection should report to the entity inspected and to the institution responsible for that entity
- **10.** Financial inspection should routinely follow up on requests to address violations of laws or regulations

3 guidelines not met

- **1.** The ex post control function of financial inspection should only check cases of serious mismanagement, suspected professional misconduct, irregularities, suspicions of fraud and corruption
- **6.** Financial inspections should use tools to prioritise subjects for inspection
- **11.** Financial inspection should co-operate with functional national and international



Summary

- No requirement for financial inspection or ex-post control function within the PAR and PFM reform agenda

Where it already exists its development/change

- is a fundamental part of the reform agenda
- needs to be well managed with the implementation of internal audit, managerial accountability and internal control

If it is to stay it should

- not hinder the development of internal audit and other reforms
- be complementary to the role of internal audit
- focus on being a reactive investigation service focused on major irregularities etc
- organised in line with the guidelines





Thank you for your attention!

**Please do not hesitate to contact SIGMA
should you have any questions or need any support!**

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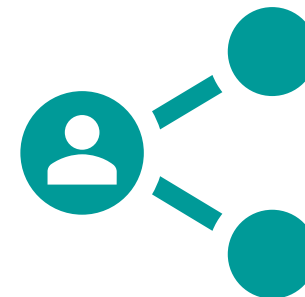
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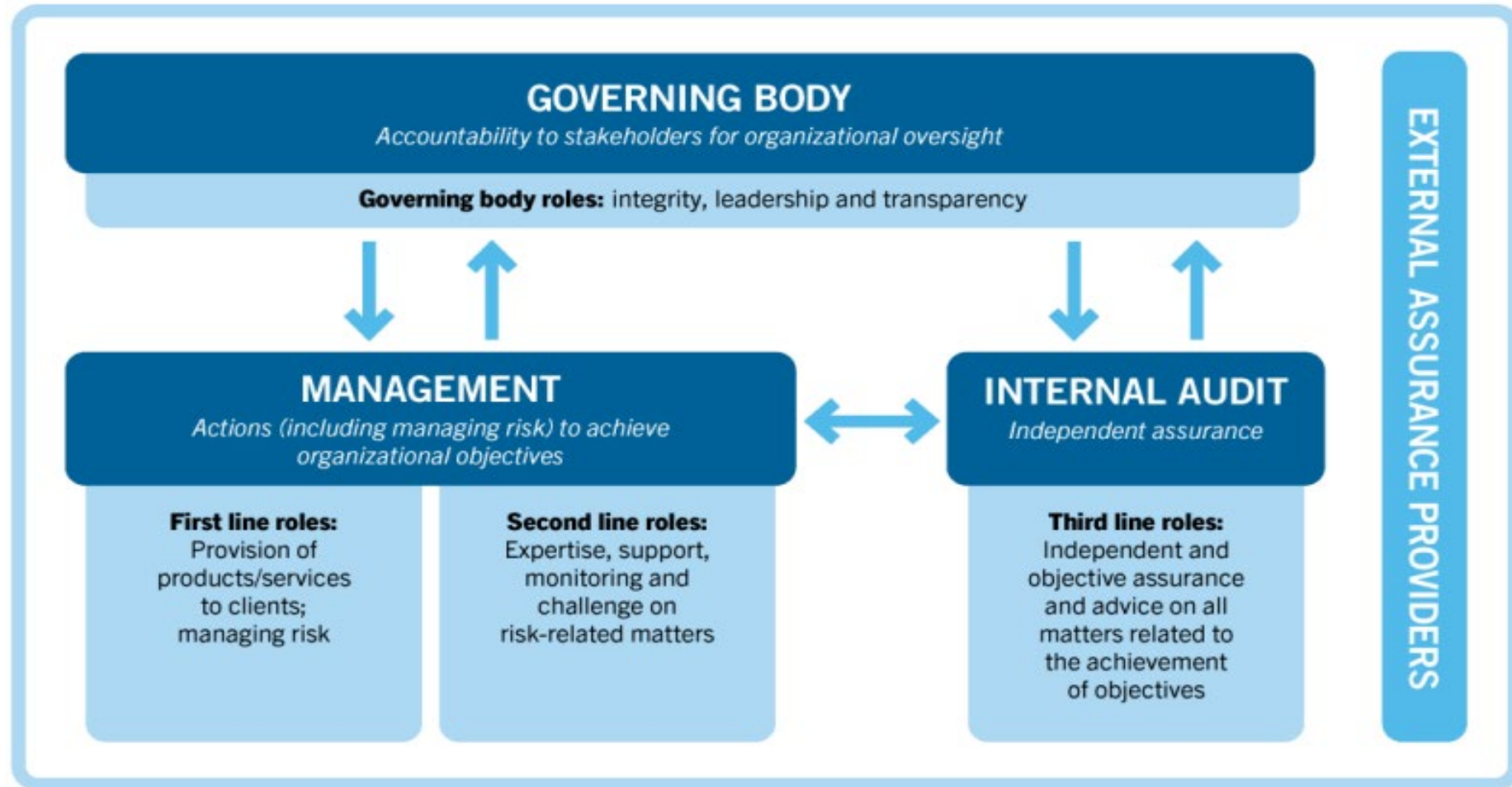
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Financial Inspection and the PAR, PFM and PIFC reform agenda

The Three Lines Model



KEY: Accountability, reporting Delegation, direction, resources, oversight Alignment, communication coordination, collaboration

