REPORT ON PEMPAL IACOP EVENT IN TASHKENT, UZBEKISTAN ON OCTOBER 17-19, 2023

Key takeaways from PEMPAL IACOP Plenary and Internal Control Working Group meetings

Plenary session, October 17-18, 2023

The objectives of the meetings included discussing synergy and coordination of public internal financial control (PIFC) with public financial management (PFM) reform, and public administration reform (PAR), sharing updates on the latest developments in internal audit (IA) in PEMPAL countries and beyond, provide feedback to Uzbekistan in the country reform path on public sector IA and internal control (IC). As well as report on the latest developments from IACOP working groups and identify the next IACOP topics.

Key Takeaways

> ✓ The synergy of PIFC with PFM and PAR is crucial and defines the maturity of each reform in the country. Managerial accountability is a driver of good governance and therefore of these reforms. Different levels of IA capacity affect the ability to review PAR and PFM reforms. Only well-staffed and high performing IA units (IAU) will have the capacity and capability to engage with PAR and PFM reforms. Internal auditors are not responsible for PAR or PFM reform, as they are the third line model and acting based on IA standards and principles.
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> ✓ The role of the central harmonization unit (CHU) is key to ensure synergy of PIFC with PAR and PFM. Country approaches differ: some build up from the bottom (awareness and understanding raising of IAs and managers) others cascade from the top (CHUs being involved in top level coordination and communication on PFM and PAR councils)
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> ✓ PEMPAL Treasury Community of Practice (TCOP) and Budget Community of Practice (BCOP) colleagues presented their perspectives on IA roles. Discussions revealed high expectations and some discrepancies for IA role. CHU and IAUs must manage the expectations of potential stakeholders.
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> ✓ The functions of financial inspection (FI) and of IA are not yet always clearly separated. Development of IA is hindered if they are mixed. The Organization for Economic Co-operation and Development Support for Improvement in Governance and Management (OECD/SIGMA) has produced a guideline and recommendation paper to clarify and distinguish between the functions which states "FI, if it exists, should be complementary to the audit function". However, the form and roles can be defined nationally.
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> ✓ Risks are increasing. Current IA risks and challenges are not the same as at the initial stage of PIFC reform. Issues such as cyber security, artificial intelligence, and digitalization are affecting daily work. The digital revolution is coming. IAUs should keep up with the trends and have basic knowledge.
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> ✓ Uzbekistan showed significant progress in IA development with support from the CHU and from senior management.

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The Deputy Minister of Economy and Finance of Uzbekistan welcomed participants and highlighted a few problem areas he saw for IA in Uzbekistan:

- IA still undertakes activities like FI.
- IA lacks sufficient competencies and certification.
- IA's train-the-trainer program needed improvement.

The IACOP ExCom Chair outlined the objective of the meeting: to search for synergy between public IA and other reform initiatives, namely PFM and PAR.

The OECD SIGMA Senior Policy Advisor highlighted the necessity for IA to focus on risk management (RM), IC, managerial accountability, budget reforms, accounting reforms, citizens service delivery, and civil service reforms.

A representative of the National Academy for Finance and Economics of the Dutch Ministry of Finance described the links between internal audit, as part of PIFC, with PAR and PFM. Reforms in the Netherlands took many years to succeed, including the transition of IA into a centralized service that was made once a high level of maturity had been achieved.

A PIFC expert encouraged synergy with PAR and PFM in the interest of citizens but warned that only high performing and courageous IA functions could participate in such a synergy. He also highlighted that IA can be impactful only with development of the financial management and control (FMC) function. Given increased risks, IA must be able to see the bigger picture of its organization and the CHU's role is to prepare IA and FMC for this.

The subsequent panel discussion confirmed that a critical mass of internal auditors is needed to look at the PAR reform and that the CHU should have a seat at the 'reform table'.

PIFC experts from Georgia and Moldova provided examples of how they made synergy happen in their respective countries. The CHU in Georgia, as a member of the respective PFM and PAR Coordination Councils, was able to put issues like certification and remuneration on the table. However, still challenges exist, like lack of proper tone at the top, lack of active involvement of the Ministry of Finance in PAR, lack of awareness of top management, and lack of a prompt decision making. In Moldova, synergy focuses on enhanced accountability, satisfaction of citizens and transparency, but challenges still exist (alignment of reforms with international standards, consistency in managerial accountability, maintaining public trust, and capacity building).

The PEMPAL BCOP Chair told participants that IA can bring value to the various phases of the budgeting process and increase the effectiveness of budget spending through a high-level cooperation during:

- The strategic planning process
- The budget planning process

- The budget execution process
- The post-execution assessment/spending review process.

The PEMPAL TCOP ExCom member gave examples of the value-adding services by IA based on valuable audit recommendations.

Participants were warned about the increase of expectations towards IA and that these expectations need to be well managed.

A World Bank expert on internal audit and audit committees outlined the status of reform to the International Internal Audit Standards and explained the probable reason behind some global disagreements with proposed changes to the current standards.

In break-out sessions the various teams shared and discussed updates on recent IA development in PEMPAL member countries. The break-out teams identified and presented on:

- Recent internal audit related achievements in the region
- Internal audit challenges for the region
- Priority topics for future PEMPAL IACOP activities.

Uzbekistan showed significant progress in IA development and support from senior management. The Head of the CHU in Uzbekistan highlighted the many achievements and plans with regard to IA in Uzbekistan. He identified a number of areas where he would like to obtain input from the participants:

1.Approval of the legal framework for IC and IA through a single or combined document?

Summary of Answers: There are different approaches in PEMPAL countries to establish the PIFC legislative framework. The most common approach is having IA and IC in one document. However, there are pros and cons for each action. It is up to Uzbekistan to decide.

2.What are the coordination functions for the CHU?

Summary of Answers: At the initial stage of the PIFC reform it is advisable to have the coordination of both PIFC pillars (e.g. IA and FMC) under the same unit. Consider CHU as a center of excellence that coordinates on a country level the implementation of IA and IC development.

3.How to define staffing levels for IA?

Summary of Answers: The experience of PEMPAL countries about criteria for IA establishment and staffing requirements are: budget, headcount, complexity of business processes, and number of subordinated agencies. It was also advised that IAUs with up to 3 internal auditors might not be effective and it could be more advisable to have shared IAUs for small organizations.

4.Should IA at (subordinated) Agencies be centralized in the Ministries?

Summary of Answers: The principle of accountability should be considered while deciding on a decentralized IA function within one Ministry. In decentralization, the central government IA unit (U) can audit the agency if the agency is part of its audit universe. It is advised to concentrate on creating functional IAUs, rather than decentralizing and covering all subordinated agencies.

5.How to make IA collaborate with the Supreme audit institution (SAI), FI, and anti-corruption?

Summary of Answers: These roles should be functionally separated through different legislation. Each body has a different and separate aim and function, however, there should be communication among them to ensure mutual understanding. The SAI should rely on IA reports, IA can review anti-corruption and inspection functions. It is advised not to give SAI the role of IA certification body; to avoid mixing IA and inspection functions. The CHU can be a contact point and initiate cooperation on the planning process.

6.What are the key criteria for internal audit key performance indicators (KPIs)?

Summary of Answers: The following criteria were listed: certification, level of acceptance of the recommendations, number of audit engagements, deviations from original plan. From an IA perspective, it was advised to introduce a balanced scorecard, seeking review and level of satisfaction of management, auditee, and CHU towards the IAU.

7.How to digitalize IA?

Summary of Answers: For IA, modules should cover planning (strategic, annual, and engagement) and reporting (engagement and annual). An additional CHU module should be used for collecting information and reporting and there should be a separate module for senior management related to risks and recommendations.

8.What are the risks and benefits in establishing audit committees?

Summary of Answers: There are some risks related to the creation of functional audit committees, such as the lack of professionalism and understanding of audit committee members, their inactiveness, or low impact on decision-making, as well as no result-driven recommendations, and limited understanding of their role. There was good advice on this in the PEMPAL knowledge product on establishing audit committees.

The SIGMA guidance on FI was explained: FI, when it exists, is complementary to the role of IA and there is no requirement for FI in the PAR and PFM reforms.

> ✓ *Topics for future priorities*
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> Participants shared their achievements and ongoing challenges. Topics for future discussion were identified and ranked (see Annex 1) as follows:

- Awareness raising and promoting IA role and its status, and branding the IA profession, "protecting" auditors – safeguards including via legislation.
- Performance audit;
- Digitalization of IA: tools, access to information/databases, what is the scope of digitalization;
- Writing IA reports with impact: how to make them brief and clear.

REPORT ON PEMPAL IACOP EVENT IN TASHKENT, UZBEKISTAN ON OCTOBER 17-19, 2023

Internal Control Working Group meeting, October 19, 2023
The objectives of the meeting included enhancing understandings of the role of RM in the Three Lines model of the Institute of Internal Auditors and the implementation and maturity levels of RM systems across PEMPAL countries.

Key Takeaways

- ✓ Participants increased knowledge of RM in the Three Lines model and the implementation and maturity level of RM systems in PEMPAL countries. RM is an important part of strategic planning for every public sector organization.
- ✓ Administrative measures for a good and adequate RM system include: appointment of a risk coordinator, creation of RM groups, introduction of a RM Council. Creating and updating risk strategies is obligatory for all public sector organizations. The role of senior management is crucial.
- ✓ The following challenges were identified: a) resistance within the organization to implement a proper RM system or to involve internal auditors in RM implementation; b) complex and non-functional risk registers, which are automatically copy-pasted; c) limited linkages between risk assessment results and the decision-making process; d) limited awareness and readiness of public institutions to manage new risks arising from the rapidly changing technological environment (such as cyber security risks.
- ✓ In countries with mature RM systems lower level risks, e.g. at the operational level, are more or less properly managed. However, RM at a high level remains a challenge. There is often resistance to openly acknowledge the management of possible high-level risks, which can draw the attention of the wider public.
- ✓ IA should support and help the RM process, by performing audit engagements, but should not be involved in the RM decision-making process. At the initial stage, IA may support the implementation process by sharing experience but this must be without any direct involvement in the RM system in an organization.
- ✓ The RM system needs ongoing attention and engagement to ensure it continues to support organizations achieving their goals. New instruments and technologies should be adopted as appropriate.

The objectives of the Working Group meeting were introduced and the results of a survey of 23 PEMPAL member countries on RM were shared. These identified the following barriers to an advanced RM process:

- Shortage of resources and competencies
- Weak senior management support
- Technology gap to support the process
- Cultural resistance.

A World Bank expert introduced the principles of RM and the link to the Three Lines model.

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A Senior Advisor at the Swedish National Financial Management Authority explained how the Three Lines model is implemented in Sweden, the model's values for Sweden, and the areas for improvement. The challenges include a heavy focus on compliance and the collaboration between the various lines.

A representative of the CHU in Albania explained that RM is an integral part of the strategic planning process in Albania and the potential for fraud is considered when assessing risks. A representative of the CHU in Moldova said that the emphasis in Moldova is on organizational culture while too much formality is a challenge. The Head of Internal Audit at the Ministry of Finance in Austria said that RM is highly developed in Austria, although there is no legal basis for it. Maturity at a basic+ level is sufficient for politicians and senior management. The leader of the IACOP Audit in Practice Working Group highlighted potential problems with regard to the implementation of RM. A panel of experts discussed recent developments on RM, followed by group discussions on solutions to the identified challenges.

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Annex 1. Priorities identified and voted during the Plenary meeting

Priority Area	Votes/Priority
1. Awareness **raising and** promoting **IA role and its status,** and branding **IA profession; "protecting"** auditors – safeguards **including via legislation.**	22 votes/#1
2. Performance **audit.**	22 votes/#1
3. Digitalization **of IA: tools, access to information/databases, what is the scope of digitalization?**	21 votes/#2
4. **Writing IA** reports with impact: **how to make those brief and clear.**	18 votes/#3
5. IT/cyber audits **by internal auditors**	13 votes/#4
6. HR: **Attracting, retaining, and motivating internal auditors in the public sector.**	13 votes/#4
7. **Use of** Artificial Intelligence**/Machine Learning and Big Data by Internal Auditors as a toolkit, including during risk assessment.**	11 votes/#5
8. Anticorruption **and integrity management: the role of IA and CHU.**	10 votes/#6
9. **Internal audit role in** change/simplification **of public administration (including PFM) processes.**	9 votes/#7
10. Advisory **services.**	6 votes
11. Remote **(continues/ongoing/hot) audit.**	4 votes
12. KPI **for IA.**	2 votes
13. Cross-COP **cooperation and connecting with SAIs.**	2 votes
14. Cooperation **of IA with other stakeholders.**	2 votes
15. Legislation**, methodology, manuals – good practices; horizontal audit methodology.**	1 vote
16. Update **IACOP knowledge products: RIFIX.**	0 votes
17. **IA** Annual reporting **process: what, how, whom?**	0 votes