Development of Internal Audit in the Russian Federation

Stanislav Sergeevich BYCHKOV
Deputy Director
of the Budget Methodology
Department

Arrangement of departmental control (internal audit) in public bodies
(as of January 01, 2014)

– Based on results of year 2013, 115 public bodies and especially relevant budgetary institutions of the federal level were surveyed.
– Public bodies of the federal level have territorial bodies and institutions under their jurisdiction in the entities and municipal unit formations of the Russian Federation.
– Actual number of staff members in those public bodies and institutions taking into account territorial bodies is 538.3 / 598.2 thousand persons.
– Actual number of employees that performs functions related to financial control (audit) in central administrations of public bodies is from 1 to 114 staffing positions.
– The staffing level of departmental control (internal audit) units is from 12% to 83%.
– 30 % of public bodies and especially relevant institutions have not established control (audit) units, 10 of public bodies have established internal audit units.
Subordination of departmental control (internal audit) units

- To the financial-economic unit [Процент]
- To a non-financial unit [Процент]
- To the deputy head [Процент]
- To the head of the unit [Процент]
- To the financial-economic unit [Процент]

Human resources of structural departmental financial control (internal audit) units of federal authorities

- Total: 647
- Have higher financial (economic education): 402
- Were retrained during the last 3 years: 155
- Have scientific degrees: 26

Departmental financial control is inefficient
The system of financial control and audit in Russia in accordance with the new requirements of the RF legislation

Law on the Chamber of Accounts, Standards of External Audit

Chamber of Accounts

Inspections

Inspections of activities

Analysis, opinions

Information upon request

On violations

Ministry of Finance of Russia

Methodology

Financial Inspectorate

Internal Audit

The system of financial control and audit in Russia in accordance with the new requirements of the RF legislation

Regulation of internal financial control and audit

New Article 160.2-1 of the Budget Code

Internal Financial Control

Control is aimed at:
Compliance with internal standards and procedures for preparation and execution of the budget on expenditures;
- implementation of measures aimed at enhancement of efficiency of utilization of budgetary funds

Internal Financial Audit

Control over compliance with internal standards and procedures for preparation and execution of the budget on revenues, preparation of budgetary reports and maintenance of budgetary accounting

Control over compliance with internal standards and procedures for preparation and execution of the budget on sources of financing of the budgetary deficit

Audit for the purposes of:
Expressing an opinion on reliability of internal financial control;
Verification of accuracy of budgetary reports;
Preparation of proposals on enhancement of efficiency of utilization of budgetary funds.

With the right of separation of functions in individual structural units

The procedure for execution is set by the Government of the RF, the supreme executive authority of an entity of the RF, by the local administration
Provisions of the Budgetary Code are limited only by the sphere of budgetary legal relations

Tasks of internal financial control

- **Elimination (prevention)** of deficiencies in terms and quality of presenting information (documents) needed for preparation and execution of the budget

- **Increasing** the level of performance discipline (responsibility) in units that carry out budgetary procedures

- **Prevention** of violations of the budgetary legislation of the Russian Federation

- **Ensuring** submission of full and authentic budgetary reports of the chief budgetary funds administrator (administrators)
GOALS OF INTERNAL FINANCIAL AUDIT

International professional standards:
1) Granting guarantees provided to the organization with respect to issues related to quality of management and control in the organization

Article 160.2-1 of the Budget Code:
Evaluation of reliability of internal financial control in the system of the authority
Verification of authenticity of budget reports and of legality of accounting

International professional standards:
2) Consultations to the head of the organization with respect to enhancement of the quality of management and control in the organization

Article 160.2-1 of the Budget Code:
Preparing proposals on enhancement of efficiency of utilization of budgetary funds and of internal financial control

MAIN PRINCIPLES OF INTERNAL AUDIT

INDEPENDENCE

OBJECTIVITY

CONSISTENCY

PROFESSIONAL COMPETENCE
Carrying out internal financial audit
*(Decree of the Government of the RF of March 17, 2014, No. 193)*

**GOALS AND ARRANGEMENT**

- **PLANNING**
- **PERFORMANCE OF AUDITS**
- **REPORTING**
- **MONITORING**
  of application of auditor’s recommendations

---

**Planning internal financial audit**

1) Identification of subjects (topics) of audits (what do we audit and for what purposes);

2) Risk-oriented selection of audits and audited entities;

   - The topic of the audit;
   - Names of audited entities;

   Issues related to audit (the status of internal financial control, organization of budgetary accounting, utilization of IT systems, sample of primary operations)
Carrying out audits

- **Audits** – desktop, field and combined (two-part) with a possibility of examining any documents that relate to the sphere of internal financial audit;
- **Procedures of the audit** – inspection, supervision, re-calculation, request – verification, analytical procedures;
- **Documenting the audit** – a program and information on the timeframe and scope of the audit, information on results of internal financial control, recourse, source documents that confirm auditor’s conclusions;
- **Results of audit** – a document is sent to the audited entity according to the form and within the timeframe set by the chief budgetary funds administrator.

REPORTS

- Reports to the manager
- Final result of the audit
- Annual reports
- Decisions on implementation of conclusions, proposals, recommendations;
- **Holding** liable;
- **Sending** materials to the financial inspectorate.
### The procedure for carrying out internal financial audit

<table>
<thead>
<tr>
<th>Features</th>
<th>Before 2014</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independence</strong></td>
<td>Is not obligatory</td>
<td>Mandatory functional independence</td>
</tr>
<tr>
<td><strong>Sphere of application</strong></td>
<td>Subordinate institutions in the part of utilization of budgetary funds, maintenance of accounting and reporting</td>
<td>All financial and economic procedures in the system of the chief administrator of budgetary funds</td>
</tr>
<tr>
<td><strong>Planning of control (audit)</strong></td>
<td>Is envisioned on the basis of general indistinct criteria</td>
<td>Planning on the basis of selection criteria Preliminary meetings, questioning officials of audited entities</td>
</tr>
<tr>
<td><strong>Documenting and reporting</strong></td>
<td>Results of the audit are recorded in a special document; Annual reports</td>
<td>Results of the audit are recorded in a special document and report: Annual reports</td>
</tr>
<tr>
<td><strong>Results</strong></td>
<td>Submissions (instructions), notifications to the management on violations – identification of conditions and reasons for violations is not obligatory</td>
<td>Recommendations, proposals on improvement of internal procedures and control over them</td>
</tr>
</tbody>
</table>

### FURTHER STEPS

- Article 160.2-1 of the Budget Code
- Decree of the Government of March 17, 2014, No. 193
- Decree on arranging internal audit in federal executive authorities
- Methodological recommendations of the Ministry of Finance of Russia concerning carrying out internal audit, departmental documents related to internal audit
- Arrangement and implementation of on-going training for internal auditors