Terminology
Developing a common understanding of what we mean by what we say

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What we will cover

- Why we need clarity of terminology
- A refresher on the main financial management models
- Key concepts and terms impacting
  - External Audit
  - Internal Audit
  - Financial Inspection
Why the need for clarity?

- We face problems of language, concepts and variation
- Language issues:
  - Audit or Control?
  - Accountability
- Concepts
  - Is financial control a process or a person?
  - What do key terms like assurance and risk assessment mean?
  - The meaning and application of PIFC and FMC
- Variation
  - The different forms of Supreme Audit Institutions (SAIs)?
  - The different characteristics of ex ante and ex post financial control?

Financial management models

- Reflect three key factors:
  - Historical development
  - Legal development
  - Administrative development
- In effect, the two grand models of financial management are simply a reflection of historical empires. The British and the French.
- However no one country is completely similar to any other in terms of the management of public finances
Two basic models....

<table>
<thead>
<tr>
<th>Anglo Saxon</th>
<th>Francophone</th>
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<tbody>
<tr>
<td>• High level budget</td>
<td>• Detailed budgetary control</td>
</tr>
<tr>
<td>• Focus on accounting officers</td>
<td>• Focus on budget holders</td>
</tr>
<tr>
<td>• Internal audit of internal controls</td>
<td>• Financial/Budget controllers - pre authorisation</td>
</tr>
<tr>
<td>• External audit linked to Parliament</td>
<td>• External audit linked to Judiciary</td>
</tr>
<tr>
<td>• Control is a process</td>
<td>• Control is a person</td>
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...and a Russian variant

Many elements of Francophone model:
• Detailed budget
• Courts of Accounts
• Others?

Some key additions:
• A highly centralised and powerful financial inspection function to carry out ex post reviews of legality of expenditure made
• Others?

... also exported widely to other countries.
Main PFM Developments

**Main Developments**

**Changing Service delivery modes**
- More use of arms length organisations
- Privatisation of public services
- More private public sector partnerships

**Greater focus on risk management**

**More active civil society**

**Move from cash to accruals accounting**

**Convergence in financial management models**
- More focus on financial management issues by international community

**Increased media awareness**

**Technology**
- Speed of delivery
- Internet promotes transparency and accountability

**Convergence of approaches**

- There has been a general coming together of the two main models of financial control
- A key driver has been the accession criteria for EU membership which promoted PIFC
- Another factor was the spectacular failure of financial control in the European Commission itself when it operated under the francophone model
Key elements of sound financial management

<table>
<thead>
<tr>
<th>Transparent and clear budgeting</th>
<th>Adequate internal control of expenditure</th>
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</thead>
<tbody>
<tr>
<td>A process of holding individuals to account for their use of public funds</td>
<td></td>
</tr>
<tr>
<td>External audit of accounts</td>
<td>Timely preparation of accounts of all public funds</td>
</tr>
</tbody>
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The roles of Auditors

- **External audit** (Supreme Audit Institution)
  - Independent audit of government accounts
  - Performance audits of government’s income and expenditure
  - A key feature of accountability to Parliament
  - No single model – Courts and Offices.
When is an SAI an SAI?

- When it is also a Court?
- When it is an office with an auditor general?
- When it is an office with a board of auditors?
- When it is a court with three members?
- When it reports to Parliament?
- When it does not report to Parliament?

The roles of auditors

- **Internal audit**
  - independent, objective assurance and consulting activity designed to add value and improve an organization’s operations
  - helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes
  - A tool of managerial accountability – follows accountability line
Different internal audit models

- Centralised internal audit units
- Decentralised internal audit units
- Outsourced internal audits
- Grouped internal audits

Inspection:
let start from Wikipedia

- In government and politics, an *inspection* is the act of a monitoring authority administering an official review of various criteria (such as documents, facilities, records, and any other assets) that are deemed by the authority to be related to the inspection.

- Inspections are used for the purpose of determining if a body is complying with regulations.

- The inspector examines the criteria and talks with involved individuals.

- A report follows such visits.
Financial Inspection

- ex-post controls
- external control: usually in the field
- checking of individual transactions, documents
- purpose: detect violations of budgetary, economic or accounting regulation identifying fraud and irregularities
- Impose sanctions!!!
- Inform law enforcement bodies

Conclusion

We need not just definition but common understanding of each other roles.

Let’s do it!