

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....

Anglo Saxon

- High level budget
- Focus on accounting officers
- Internal audit of internal controls
- External audit linked to Parliament
- Control is a process

Francophone

- Detailed budgetary control
- Focus on budget holders
- Financial/Budget controllers - pre authorisation
- External audit linked to Judiciary
- Control is a person

...and a Russian variant

Many elements of Francophone model:

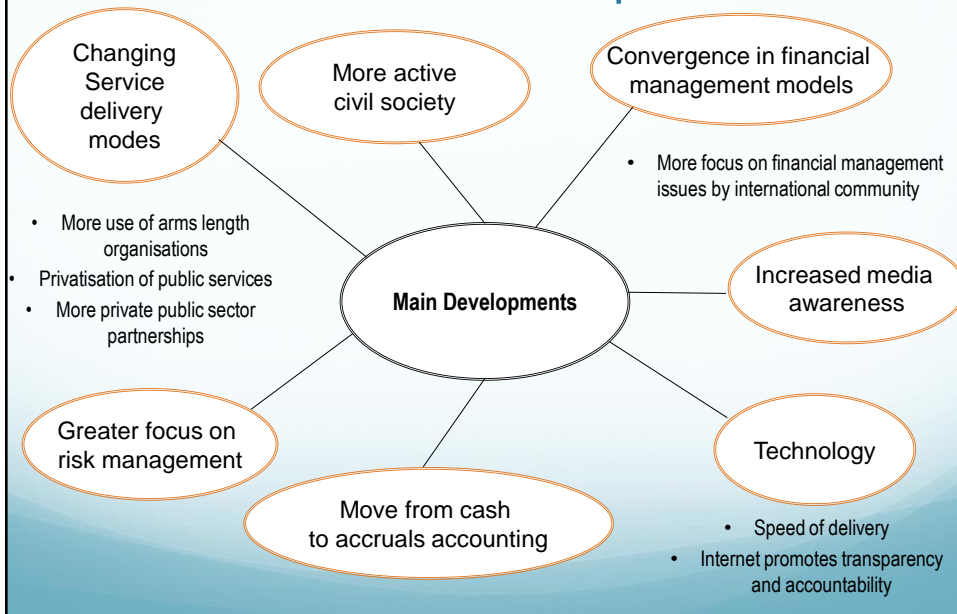
- Detailed budget
- Courts of Accounts
- Others?

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.

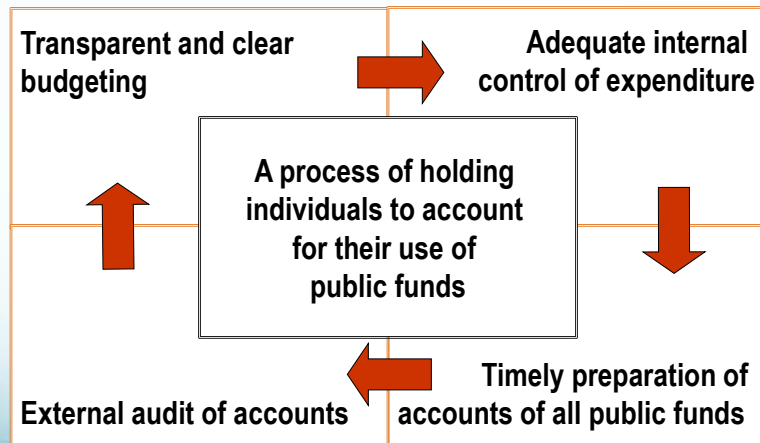
Main PFM Developments



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



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!