

## **Regional PEMPAL Internal Audit Community of Practice (IACOP) Plenary meeting**

On 2<sup>nd</sup>-4<sup>th</sup> of December in Bucharest, Romania, IACOP annual plenary meeting were held. We are pleased to inform you about the success of PEMPAL Internal Audit Community of Practice's Annual Plenary Meeting and the latest achievements of this professional network. Our community grows and is getting stronger and stronger, we are glad to welcome Czech Republic among us.

The events were hosted by the Ministry of Finance of Romania. The mission included Richard Maggs (PFM/SAI consultant), Jean-Pierre Garitte (Internal Audit Consultant), Diana Grosu-Axenti (resource team member), Gašper Pleško and Matija Milotič (PEMPAL Secretariat), Manfred van Kesteren (Dutch Institute of MOF), Monika Kos (Advisor to the Minister of Finance, Poland), and Beerson Baboojee (CHU head from Treasury of RSA). The Polish and RSA participants contributed to the plenary sessions and acted on the panel on topics of Public Internal Control and Audit Committees, and were involved in small break out groups. The IACOP event has brought together more than 60 participants from 23 countries including the Czech Republic for the first time as an IACOP member country. High level MOF officials from IACOP member countries also attended the events.

Involvement of all participants is very important for us and all of us were involved in the enabling groups' activity which is a special feature of IACOP. We desperately seek of priorities of countries to provide them what they really need. During the event also we collected information from members.

### ***IACOP Strategy midterm update was conducted with the following priority topics endorsed by the plenary:***

1. Financial Management and Control including COSO3 implementation in practice,
2. Conducting modern internal audit assignment (complete audit cycle) with emphasis on transparency of budget processes,
3. The role and competence of CHU in difference phases of internal audit capability maturity.

Some of the priority topics raised by participants have been already addressed in the past (e.g. training and certification). It was agreed to disseminate broader the documents developed and results achieved in IACOP since 2007 including through short knowledge broker sessions during upcoming meetings.

It was proposed to video-stream key sessions from upcoming IACOP events to make those broadly available and to be used as a training material in member countries.

The IACOP knowledge products are found very relevant and useful by majority of countries. Those agreed to be published and disseminated. The Wiki which is the IACOP knowledge management and information exchange tool will need to be restructured to

provide for more user friendly access to information and knowledge considering extensive developments in IACOP during last few years.

Plenary meeting objectives have been fully achieved. The working groups reported their strong progress in knowledge creation and presented valuable knowledge products in the areas of Quality Assurance, Risk Assessment, and Relationship of Internal Audit with Financial Inspection and External Audit.

***Knowledge products give opportunity for benchmarking.*** IACOP Risk Assessment Working Group proudly presented their Guide to risk based audit planning which answer the requirements of professional trends to use risk assessment. The participants acknowledged it as a very user friendly document which helps understand and apply this approach, and can be used for training also.

***Unity in diversity!*** IACOP RIFIX Working Group also reported significant progress in achievement of their objectives. The members gained common and better understanding of different control instruments which should cooperate instead of compete.

***IACOP's knowledge products are reference of good practice.*** IACOP Quality Assurance Working Group is creating unique and outstanding document for QA of internal audit in public sector. The participants are strongly convinced about that this guideline can be used in all stages of development of internal audit activity.

### ***Romanian experience of internal audit (IA) reforms and its challenges were reviewed and IACOP perspectives on those shared***

Internal audit in Romania is a subject of the Law and all methodology is in place. The IA implementation is mandatory at the level of every public entity. The IA unit should be not smaller than two full-time positions for internal auditors. At the level of the institutions that are subordinated to a higher public entity, it decides how to organize internal audit. Local authorities can founded their own unit or to chare the unit created by cooperation (join internal auditors). Central Harmonization Unit for public internal audit (CHU PIA) is responsible for national IA strategy, drafting and improving the legislation & methodology, Coordination of hiring system, of internal audit training system, of national certification process, guiding the local public entities and associative bodies in implementing the cooperation system. CHU for PIA is also responsible for ensuring internal auditors independence by approving methodological norms for public entities whose managers are top budget authorities & approving nomination of the chief of public internal audit compartment for the public entities whose managers are top budget authorities. External evaluation of the public internal audit activity of public entities, including organizing associative bodies is also the responsibility on CHU for PIA both issuing the reporting system of public internal audit activity at the national level and drafting the annual report regarding internal audit activity in the public sector.

Other institution in PIA system is The Committee for PIA, which is a consultative body, contributing to the improvement of internal audit strategy.

The challenges Romania shared with IACOP and got an professional peer's opinions are: Cooperation for ensuring public internal audit function, Public internal audit certification (legal framework adopted and procedural framework undergoing, it will start in the first quarter of 2015) & Implementing the Internal Audit Committee at the level of the public entities having a budget over 2 billion lei (legal framework adopted and procedural framework undergoing).

### ***The recent developments on PIC/PIFC were presented and discussed***

From Coso 1, which introduced the definitions of Internal Control and five components, to Coso 2, which is focused on internal control in the context of risk management the control models moved to Coso 3, which introduces a principles based approach and the need for regular monitoring. The 3 lines of defense control model were explained. The first line of Defense is direct operation of controls by management, followed by The Second line of Defense - monitoring and oversight of controls by management and The Third line of Defense - review of the effectiveness of controls by audit and evaluation. The importance of internal control for internal auditors is extremely high because Internal Audit cannot provide assurance on internal control if auditors do not understand of the main elements of internal control. Internal Auditors need a thorough understanding of the different ways of ensuring effective internal control and the type and nature of controls in operation for example, Preventative and Detective Controls. An understanding of the three lines of defense model can help IA explain the different roles of IA and management in maintaining effective internal control. Internal Audit can help managers understand that internal control is not just financial control but Managerial Control in general.

### ***Good practices in establishing audit committee (AC) and FMC in public sector were reviewed***

The AC assists top management to fulfill its governance and overseeing responsibilities in relation to an entity's financial reporting, internal control system, risk management system and internal and external audit functions.

Its role is to provide advice and recommendations to top management within the scope of its terms of reference / charter AC plays an important role and needs to be established in the public sector, however, the maturity of the IA, internal control environment and risk management culture should be considered. Replication of an advanced governance system should be avoided. The role of AC needs to be broad and cover internal controls, risk management, governance, and internal audit, while not involved in micro management of the IA activity.

The main AC exists as: Central Advisory Boards (CAB's); Internal Audit management committees (IAMC's); Governance Audit Committees (GAC's).

Central Advisory Boards (CAB's): is also known as 'PIFC-council'; is a good first step towards Audit Committee's; usually advises cabinet of Ministers or minister of Finance on development and implementation of PIFC; strongly cooperates with CHU. The members are public sector officials from other organizations, independent non-executive members (from academia or private sector), and SAI representative (as an observer).

Internal Audit management committees (IAMC's): Attached to a (line) ministry or other budget spending agency; It is focused on internal audit plan, audit recommendations and report to top management.

Governance Audit Committees (GAC's): Broad focus on 'Good Governance' (on institutional- and/or cross-institutional level); Supporting: financial management, internal control, risk management, financial reporting and the internal audit function; Oversight-role, supporting role and coordination role.

AC and its members performance needs to be regularly assessed.

***IACOP can be considered as an inter-nation CHU, which harmonize between countries.*** At the beginning helps to gain better understanding, during development of national rules it guides us through the process, and in case of introduced systems it helps to revise and improve further the existing system.

## **Quality Assurance working group meeting in Bucharest, Romania**

On November 30 and December 1, 2014 PEM PAL Internal Audit Community of Practice Quality Assurance working group had a meeting in Bucharest, Romania.

Working group was established with the aim to prepare an addendum on the Good Practice Internal Audit Manual Template developed by the Internal Audit Community of Practice of PEM PAL. The Good Practice Internal Audit Manual Template confirms the reliance of many stakeholders on the work of internal audit. According to the internationally accepted internal auditing standards, but also to good professional practices, internal audit shall have a quality assessment and improvement program in place. This program shall consist of

1. an internal quality assessment performed by the internal audit unit itself
2. an external quality assessment performed by the CHU

3. An independent external quality assessment performed by an external, independent party<sup>1</sup>.

The Objectives of the meeting held in Bucharest were

- finalizing and approving the PEM PAL approach to external assessment of the internal audit activity by the CHU
- developing the PEM PAL approach to internal assessment of the CHU
- learn how to apply the PEM PAL quality assurance products in practice
- unveil some challenging plans for the future
- finalize deliverables of QA WG to be distributed and presented at plenary meeting.

The expected outcomes were to develop a solid understanding of the Quality Assurance of an internal audit activity.

Planned objectives and outcomes were successfully met. Participants of the working group have discussed proposed structure of the PEM PAL approach to external assessment of the internal audit activity by the CHU (according to each Internationally accepted internal auditing standards and the scoring system for assessing the quality of the internal audit conditions and practices) and approach to internal assessment of the CHU. As a result of participating in Quality Assurance working group participants gained strong awareness on how to apply the internationally accepted internal auditing standards on quality assessment and improvement of the internal audit activity and their understanding of the quality assurance of an internal audit activity is enhanced. It is worth mentioning that during previous working group meetings the country experience on internal audit quality assurance was shared.

Working group is now in the process of finishing its unique and outstanding knowledge product: The addendum to the Good Practice Internal Audit Manual Template on Quality assessment and improvement of the internal audit function. The addendum will consist of the following parts:

- Annex 1 Quality Criteria for Ongoing Internal Audit Monitoring
- Annex 2 Questions to be raised during the internal quality assessment
- Annex 3 Audit Entity Survey Template
- Annex 4 External quality assessment by the CHU
- Annex 5 Questions to be raised when assessing the CHU.

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<sup>1</sup> The term “third party” does not refer to the CHU or to Financial Inspection

It is agreed that the documents will be published and disseminated in order to make them broadly available. Majority of countries found Quality Assurance working group knowledge product as extremely relevant and useful. They are strongly convinced that the document developed can be used in all stages of development of the internal audit activity. They plan to use them as a training material and incorporate them into internal audit methodology in their respective countries. It was also agreed to copyright the unique methodology developed by the Quality Assurance working group of the PEM PAL Internal Audit Community of Practice.