



# RIFIX

Newspaper №1

**News from Relationship of Internal Audit (RIFIX) with Financial  
Inspection and External Audit Working Group  
Meeting in Moscow, Russian Federation**



**Kyrgyzstan, Zamira Omorova,  
head of CHU for IA: Searching  
for ways for efficient organization  
of external and internal audit**

Internal and external audits are important elements of public financial management.

In the Kyrgyz Republic, the Ministry of Finance is the central government body responsible for the functions of developing and implementing government policy in the area of internal audit. On September 18, 2015, the Kyrgyz Ministry of Finance held a roundtable on Relationship Between Internal and External Audit for purposes of implementing by the Ministry the Agreement on Cooperation between the Ministry of Finance and Chamber of Accounts of the Kyrgyz Republic in the Area of Public Audit (the Agreement), which concerns such important aspects of public audit work as:

1. planning audits at entities subject to internal audit;
2. use of reports prepared by internal audit units;
3. risk management and assessment of internal control systems;
4. financial management and control at budgetary institutions;
5. coordination of methodological work and staff training programs; and
6. advanced training of public audit specialists.

The implementation of the Agreement will help organize external and internal audits more efficiently, based on clear understanding of respective roles.

Based on the outcomes of the round table discussion, a decision was made to develop in-house and interagency documents concerning information sharing on the periods of audits and production of audit reports by internal audit units of Kyrgyz ministries and agencies in a format acceptable for the national Chamber of Accounts, and to carry out joint activities to improve the methodology used by the Chamber of Accounts and internal audit units of Kyrgyz ministries and agencies. On February 5, 2016, the Ministry of Finance approved an Action Plan for implementation of the Agreement on Cooperation.

This Plan envisages the following:

1. setting up a Working Group for preparing recommendations on the development of departmental and interagency regulations and on amendments to be made to respective legal and regulatory documents of the Kyrgyz Republic;
2. carrying out joint activities to improve the methodology used by the Chamber of Accounts and internal audit units of Kyrgyz ministries and agencies;
3. developing recommendations on information sharing on the coverage and periodicity of audits and also on submission by internal audit units of ministries and agencies of their action plans to the Chamber of Accounts of the Kyrgyz Republic;
4. involving Chamber of Accounts officials in trainings organized by the Ministry of Finance for internal auditors from Kyrgyz ministries and agencies.





### RIFIX in ALBANIA from Dritan Fino, head of CHU for FMC

The Ministry of Finance (Internal Audit and Public Financial Inspection) and Supreme Audit Institution (SAI) have an institutional cooperation based on "Cooperation Agreement" approved on 08.05.2012 with no. 7307 for the Ministry of Finance and for the SAI, respectively by the Minister of Finance and Head of the Supreme Audit Institution.

According, also to the new IA law, CHU / IA and SAI cooperate based on the principles of constant communication, commitment, reciprocal understanding and trust. The main fields of cooperation are: sharing of a consolidated plan of the internal audit activity, to avoid overlaps, sharing of audit reports and audit methodologies development, joint trainings.

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During 2016, by the Minstry of Finance is officially submitted to the SAI: "The strategic plan and annual consolidated internal audit activity in the public sector for the year 2016- 2020", "Report on the functioning of PIFC in general government units for the year 2015 "; all laws and bylaws for opinions (Decision of Council of Ministers of the Audit Committee; DCM for the Qualification Commission and DCM of establishing IAU, etc).

By the SAI is officially sent, regurlarly, at the Ministry of Finance for information "Audit Newsletters for 2015" No. 1, No. 2, No. 3, No. 4. In continuous professional training for internal auditors in the public sector, organized by the CHU / IA for 2016, were invited and attended 19 external

audit by the SAI. These experts have given their contribution in addressing topics defined in the program and at the same time have been active in the discussions.



Group photo at the closing of the training week for senior internal and external auditors in Albania

The approved agreement is under review by both institutions to take into consideration the changes of the laws for internal audit and public financial inspection.

The project " Implementation of a modern system for Financial Management and Control (FMC) and Public Financial Inspection in Albania" is a twinning project which is a consortium of Ministry of Finance of Austria and the Ministry of Finance of France. This project started in September 201 14 and will last for 2 years, until November 2016. The project is composed of three components as follows:

1. Implementation of a Financial Management and Control
2. Implementation of Public Financial Inspection
3. Review and adoption of the Law on Financial Management and Control (FMC), Internal Audit Law (IA) in the Public Sector and Public Financial Inspection Law.

### Romania 2016 - in the RIFIX light from Mioara Diaconescu, head of IA CHU and Dragos - Catalin Niculae, head of the unit for coordination of evaluation and reporting of IA, IA CHI



Starting 1991 a General Directorate for State Financial Control was established. Following the implementation of European Funds, in 2011 a step forward was done by establishing the Economical-Financial Inspection.

At that time, there were 3 units within:

- Financial Inspection for economic entrepreneurs
- Financial Inspection for European Funds
- Internal Inspection.

In terms of internal activity, before 1999 a General Inspection Unit were in place dealing with IRR within Ministry of Public Finances (MoPF). In 2000, as a result of accession negotiations, this unit was transformed overnight in Internal Audit and Control Unit. Furthermore to the negotiation, the EU requested a clear separation between internal control and internal audit. As a result, the unit was split into the Internal Audit Department (DAPI) and Central Harmonization Unit for Public Internal Audit. No inspection unit was created at that time. This lack of inspection remained until 2013, when the Internal Control Body from Financial Inspection directorate was separated from this, becoming the internal inspection of MoPF.

As regards the cooperation between internal and external auditors, in Romania the separation stays in the aim of the audits.

While the internal audit objective is to assist the management to reach the objectives by assessing the adequacy of the internal control systems, often testing the operations as well, the external auditors respectively Court of Accounts as Supreme Audit Institution, are mainly focused on the financial area of the activity watching the safeguarding of the financial resources. In its activity, the Court of Accounts may rely on the work of internal auditors, if consider. In practice, at the level of central and local administration, internal audit reports are inputs for external auditors in their activities.

Having in mind this approach, the CHUPIA signed a protocol since 2009 with the Romanian Court of Accounts as Supreme Audit Institution in Romania, setting up a bilateral system to exchange information and provide professional training. Base on this protocol CHUPIA exchanged during 2015 and 2016 information regarding the system deficiencies, problems encountered in application of the secondary legislation and the last but not the least common training sessions. For example, a training session on performance audit principles was delivered by a trainer from Court of Accounts in 27-28 march 2016, to 100 internal auditors in the public sector. This seminar was very appreciated at the level of internal auditors and CHUPIA has the intension to be continued.



As regards the **cooperation between Internal Audit and Economic and Financial Inspection**, in Romania they have very clear attributions and there are not overlapping.

As regards the **cooperation between Internal Audit and Internal Inspection Body**, internal audit irregularities identified during audit missions are reported through specific standard document and investigated by the Internal Inspection Body at the demand of the top manager.



**Giulia Chkuaseli,  
head of the PIFC unit**

## **RIFIX in Georgia: hard does not mean impossible**

Relationship between inspection and internal audit still remains a major topic in Georgia. In addition to the actuality of this issue in many countries, in Georgia it is conditioned by 2 main circumstances:

**1. Law of Georgia “On State Internal Audit and Inspection”.** Before the start of formation of IAUs, law on inspection was being prepared. But at the same time close negotiations took place between Georgian side and EU, so the suggestion about the need of establishment of the Public Internal Financial Control system also should have taken place. Law of Georgia “On State Internal Audit and Inspection” was adopted, including both, PIFC and Inspection.

**2. Formations of internal audit units, in certain institutions, were carried out on the basis of general inspections;** accordingly certain parts of Internal Audit units were staffed by the employees of old inspection, with their mentality

and attitude towards deviations. From today's point of view both steps were mistakes! 1. Having Inspection in PIFC Law and 2. Abolishing Inspection function by "renaming" the units as internal audit unit.

In December 2011, inspecting function was taken out from the law which was stated as Law of Georgia "On Public Internal Financial Control". But the institutions soon realized that they need inspection function also. The problem was that the top management was against establishing separate inspection units, together with internal audit units in the institution. So main challenge of CHU was to increase the awareness of the internal audit function as for the Top management, also for the lower level staff: internal auditors, inspectors, and auditees, with 2 main purposes: 1. Having both functions does not necessarily mean duplicating function; 2. Internal audit has totally different goals from inspection. (Of course firing all the old staff and recruiting the new ones was not the solution). For that reason CHU had prepared special training module explaining the difference between inspection and internal audit. This topic was also included in to our PIFC annual conference, which was held for the top management. Finally, compromising the needs of PIFC system and having agreement with the top management Georgia finally and totally excluded the inspection part from the law (in December, 2015), but inspectorate divisions remained under the Internal Audit Unit. Inspection, where it exists in the institutions, is governed by the regulation of appropriate institution. Adopting the new law was easier though, than changing the mentality of the existing ex-Inspectors.

#### How Georgia tackled main challenges nowadays:

1. The duties should be separated by charters and job descriptions (no one person should do both: inspection and IA, and these functions should not cover each other);
2. Monitoring audit reports yearly bases and this topic is included in CHU's annual report;
3. Conducting yearly interviews observing auditors at the trainings (very low percentage has remain from ex-Inspectors);
4. Trying to have Internal auditors more focused on system-based and performance audits, (more value-added activities than checking data);



This data is given about main Challenges facing the CHU nowadays, but lots of questions raise about the future development of the control system.

- 1.Are these two structural units necessary for effective functioning of the institution?
- 2.How to regulate functions of Inspection? (Is separate law needed?)
3. Can they check each others' functioning?
- 4.How to separate duties to avoid overlap?
- 5.How IA should cooperate with Inspection and vice versa?
- 6.Where will be this cooperation stated? In the Law, legal acts ..?

The same difficulties were facing at the supreme audit institution in Georgia, as we had Chamber of Control which was changed into State Audit Office. We cooperate with them closely, especially about the common problems. Our first cooperation took place in 2012, when SAO conducted performance audit on CHU and its activities. Their recommendations were helpful for us, mainly to push sensitive topics in our government in order to develop the system. Second stage of our cooperation can be considered the association agreement between EU and Georgia, where the article 279 includes developing internal control and external audit, so these main reforms come together in one article. Lots of internal auditors attend trainings provided by Institute of State audit office and they negotiated the training modules with CHU. Recently CHU was invited on the trainings conducted by International experts; I myself with SAO staff attended those trainings, which was fruitful not only because of the interesting topic but to get to known to them.

Nowadays, we have round table meetings about the spheres we can help each other. Some of the issues are already set in which we will cooperate:

- 1.Annual plans (not to overlap in such law resources, despite the different objective of these institution);
- 2.Fulfilling the recommendations (Internal auditors will monitor the recommendations in their relevant institution given by SAO);
- 3.On-job trainings for internal auditors in the field of performance audit (SAO has a separate unit for this type of audit, they pay a lot of attention and we could use it);
- 4.To set the same language (comparing the methodological documents in order to form the terminology).

From the experience of our country, I can say that we could not imagine 3 or 4 years ago we would have done so much for now, but hard does not impossible!



**Fatima Obhodach,  
assistant of the Minister:  
RIFIX in BOSNIA & HERZEGOVINA**

Although the concept of financial management and control in BiH until this year was still at a very early stage of development, things have started to change in the area of PIFC by adoption the Law of the financial management and control in the public sector in the Federation in May this year (provisions related the FMC previously passed by the state amendment to the Law on the financing of institutions of BiH). In addition to the Law on FMC, the primary law governing financial management and control in the public sector, is the Law on budgets in the Federation of BiH which provides budget inspection as a special form of control in the public sector. Budget inspection, as part of the public internal financial control, is responsible for controlling the application of the law in the area of financial management, purposeful and lawful use of funds by budget beneficiaries. However, at this time functional centralized budget inspection has not yet been established at any level of government in BiH. The inspection includes supervision of the legality or determining whether a particular process is acting in accordance with the law. If the commission determines the specific violation of the law, it has the effect of taking appropriate punitive measures and submission of misdemeanor and criminal proceedings. Art. 79-85. Law on Budgets in the Federation of Bosnia and Herzegovina by the provisions relating to budgetary control, its scope, performing the duties of budget control, treatment in the event that the budget inspector finds violations or irregularities in the implementation of the law. The Rulebook on the internal organization of the Federal Ministry of Finance from 2014 systematized the Budgetary Inspection Unit as the basic organizational unit of the ministry with the task of carrying out budgetary surveillance. The scope of this unit is to carry out an inspection of

legality, timeliness and intended use of budgetary funds, and requires measures to eliminate illegalities and irregularities in the way that: determines whether the budgetary funds are used legally, dedicated and timely manner; taking corrective actions to stop the irregularities and fraud as well as an abuse of the budget, wrong planning and management; take measures to prevent the occurrence of adverse consequences in the budget and measures to eliminate the damage caused to the budget; checks the correctness of the procedure of budget users in the application of the laws and the law adopted funds in the amount, regulations and laws, and check the use of budget for the purposes and within the time as prescribed by the budget of the Federation of Bosnia and collect reliable and credible financial and other data, and timely submitted to the competent authorities.

This unit is planned to employ four budget inspectors, however, still has not employees. The publication of the competition for employment will be by the end of the year. One of the measures contained in the preliminary priorities for the development of the Strategy of Public Finance Management in August 2016, and the

Pillar V - Internal control and the realization of the objective of which would enhance the collective responsibility for the financial management and performance of the functions of the Management Board, is to strengthen the function of budget inspection by engaging or redistribution of staff in the budget inspection, as well as the organization of trainings for budget inspectors.

The working plan of CHU FMF includes adoption of an ordinance regulating the ratio of internal audit, budget inspection and external audit, or drawing up guidelines on the detection, treatment and reporting of irregularities, which is also one of a measure of the PIFC Strategy 2015-2018. for the Federation.

CHU FMF has good cooperation with the Office of Audit institutions in the Federation, and which should be further strengthened through regular meetings at least four times a year.

Accordingly, for the development and further improvement of PIFC areas in BiH is necessary for the successful cooperation and the functioning of the CHU and external audit and budget inspection because only as a whole can contribute to the development of public internal financial control in the public sector.

**The role of internal audit, national audit institutions and budget inspection in Montenegro and their mutual relationship**



**The role of internal audit, national audit institutions and budget inspection in Montenegro and their mutual relationship  
Stojan Rocenovici,  
head of IA unit**

Public financial management is the key instrument of state policy which ensures the efficient allocation of public funds according to established budget priorities and fiscal discipline.

Improvement of PFM is one of the key areas of current and future strategic documents which refer to the public administration reform in Montenegro, taking into account the significance of the PFM reform for the public administration reform and the further development of all sectors of the economy and a better quality of life for the citizens.

Control of public finances (revenues and expenditures) is achieved by:

1. the internal control system,
2. internal audit,
3. budget inspection, and
4. external audit - a state audit institution.

Although no cooperation act has been signed between the State Audit Institution and internal audit, cooperation has been established to the satisfaction of both parties, by conducting joint training sessions, having discussions on common topics, with the participation of CHU employees, with the goal of improving the work of internal audit, so that state auditors can rely on the internal audit report in their work. The Central Harmonisation Unit cooperates effectively with the State Audit Institution in coordinating the establishment and development of internal audit. Budget inspection with one executor is in its initial phase of development, thus the collaboration is in its initial phase.

The Government of Montenegro adopted the PFM reform programme 2016-2020 in late 2015, along with the Action Plan which defines the key reform plans for the upcoming period in this area, where the goal is to increase responsibility and ensure reliable financial management by improving the cost-effectiveness, efficiency and effectiveness of PFM. This programme includes internal audit and the State Audit Institution.

**The main characteristics of internal audit, the state audit institution and budget inspection**

	Internal audit	External audit	Budget inspection
Established - year	Began in 2009/2010 for central level budget users	2004/2005	2013/2014
Legal framework	the Law on Public Internal Financial Control system	the Law on State Audit Institution	the Law on Budget and Fiscal Responsibility
Authorisation	Assesses the level of adequacy and effectiveness of internal control in the audited processes of the public sector entity where a unit has been established or pursuant to an agreement (ministry, fund, municipality, etc.)	Conducts financial audit, compliance audit and performance audit for bodies and organisations managing the budget or assets of the state and local self-government units, funds and other legal entities founded by the government or where the government is the majority shareholder	Controls the legal and purposeful use of the budget funds of spending units, municipalities and other public sector entities
Framework for the performance of tasks	the PIIFC Law and the International Standards for the Professional Practice of Internal Audit	the State Audit Institution and the INTOSAI standards	the Budget and Fiscal Responsibility Law and the Law on Inspection Control
tasks	Standards for the Professional Practice of Internal Audit	the INTOSAI standards	the Law on Inspection Control
What constitutes a completed audit/control?	Audit report	Audit report	Inspection minutes
Do they have a prescribed methodology for their work?	Yes	Yes	No - only the Law on Inspection Control
Who receives the annual work report?	The head of the entity CHU the Government of Montenegro	the Parliament	the Ministry of Finance
Number of executors	73	35	1
Has the collaboration been defined (by an agreement, memorandum)	No	No	No

