BREAK-OUT SESSIONS ON KEY BUDGET EXECUTION ISSUES

The Role of Internal Controls in Ensuring Public Funds Are Used Efficiently and Effectively

A number of transition countries, including new EU members and EU aspiring countries have embarked on major reforms to modernize their internal control environment (including internal audit) to meet the EU *Acquis*. Chapter 32 (formerly chapter 28) of the EU *acquis*[1] makes reliance on modern, general internationally-agreed principles of sound financial management and control. Under these principles, internal control is envisioned as a management tool to ensure that the institution is functioning in accordance with the stated policies and procedures, delivering services efficiently and effectively, protecting assets from improper use, maintaining precise and timely accounts, producing reliable financial and non-financial information on a timely basis.

Similarly, internal audit (which is a component of internal controls) could be defined as an "independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It 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."[2]

Modern internal control (including internal audit) should be positioned to promote good practice and act in a positive proactive way without the negative connotations associated with a "control" or "checker" type of approach. However, many transition countries have had to overcome a legacy of "control and revision" departments, which focused on transactions and compliance issues and rather than on systems and procedures. These departments were more interested in "catching" wrong doers rather than identifying adequacy of internal control systems and procedures. Shifting out of the old model of internal control to a new model is an important challenge for the Ministry of Finance to confront.

[1] Chapter 32 (financial control) defines an integrated internal control system for the entire public sector as covering 3 principle elements: (i) managerial accountability; (ii) independent internal audits; (iii) centralized harmonization (i.e., an organization responsible for the harmonization and implementation of internal control throughout the entire public sector).

[2] Institute of Internal Auditors, definition of *internal auditing*

Please respond to the following questions:

1. What have been the developments in your country with internal control (including internal audit)? What have been the most visible changes in the control environment following these developments?

2. What are the obstacles you face in switching to the new model? And what would be the conditions for a complete successful transition to this new model? Some examples of possible factors :

    - Organization
    - Capacity
    - Management and/or political willingness
    - Status and culture of public service
    - Legislative framework
    - Relation with external audit institution(s)[3]

[3] In many transition economies, areas of competences between the internal control and external audit institutions have tended to overlap due (among others) to the multiplicity of controls. Developing a modern control framework often involves streamlining and clarifying the respective roles of the internal and external control institutions.