

6<sup>th</sup> Plenary meeting of PEMPAL Internal Audit Community  
of Practice

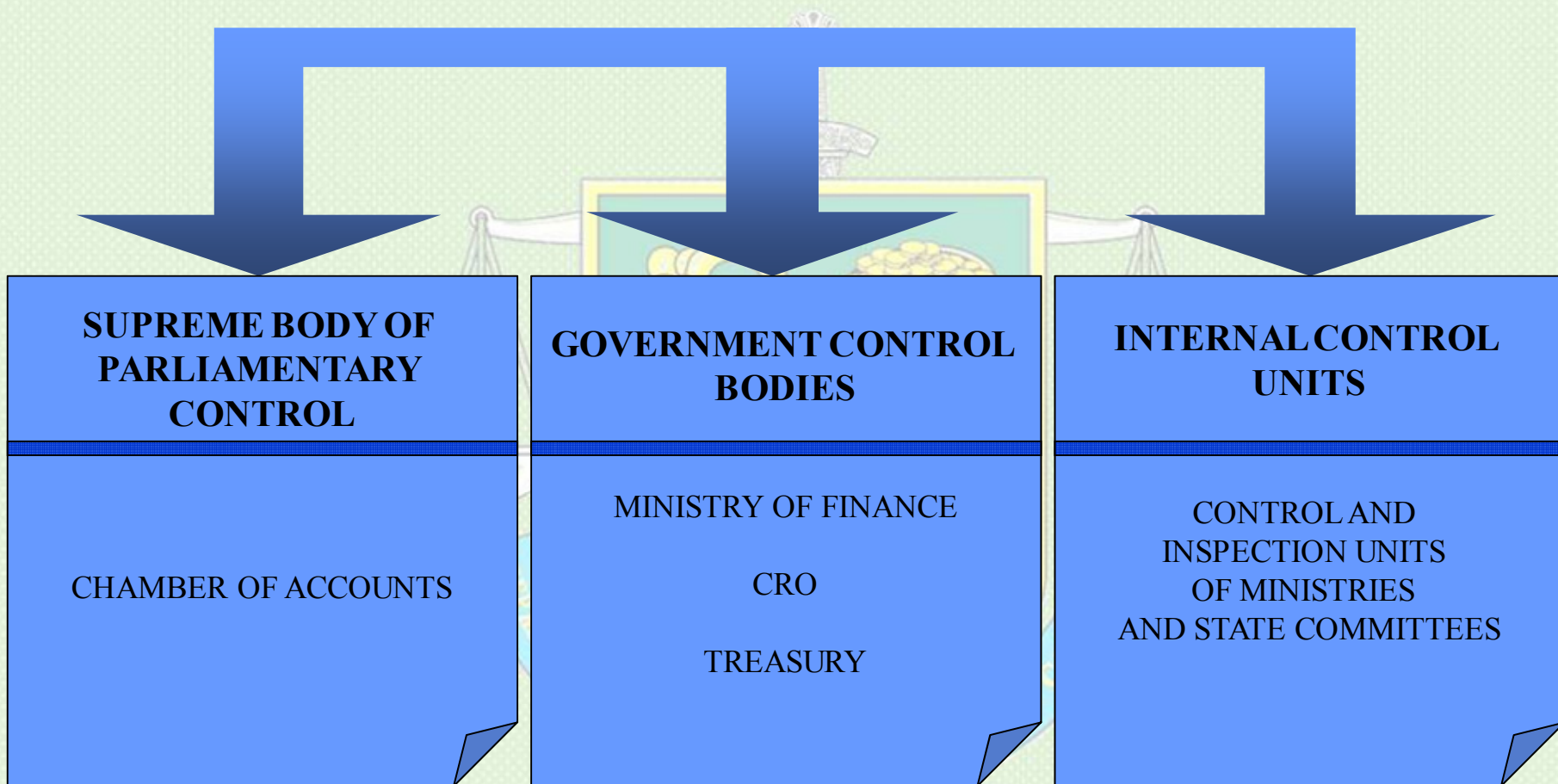
# PUBLIC FINANCE CONTROL DEVELOPMENT IN UKRAINE

The background features the coat of arms of the State Audit Service of Ukraine. It consists of a central shield with a golden key and a golden bowl filled with coins. The shield is flanked by two scales of justice. A blue ribbon at the bottom contains the text 'ДЕРЖАВНА КОНТРОЛЬНА СЛУЖБА' in yellow. The text 'Head of CHU PIFC MainCRO Maxim Timokhin' is overlaid on the shield.

Head of CHU PIFC  
MainCRO  
Maxim Timokhin

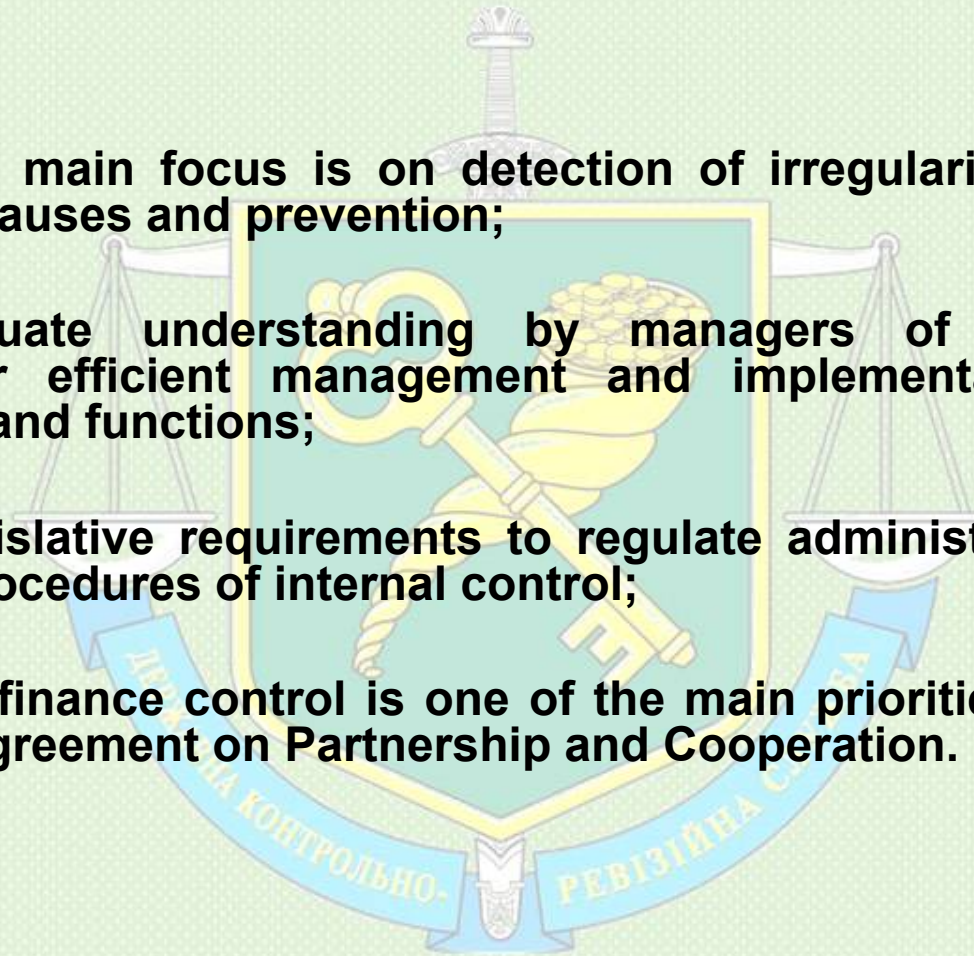
Ukraine, Yalta  
28.05.2010

# Main Public Finance Control Bodies in Ukraine



## **Need to reform public internal finance control:**

- ✓ **During control, main focus is on detection of irregularities and not on analysis of their causes and prevention;**
- ✓ **Lack of adequate understanding by managers of their personal responsibility for efficient management and implementation of public authorities tasks and functions;**
- ✓ **Absence of legislative requirements to regulate administrative functions and respective procedures of internal control;**
- ✓ **Public internal finance control is one of the main priorities envisioned in the EU-Ukraine Agreement on Partnership and Cooperation.**

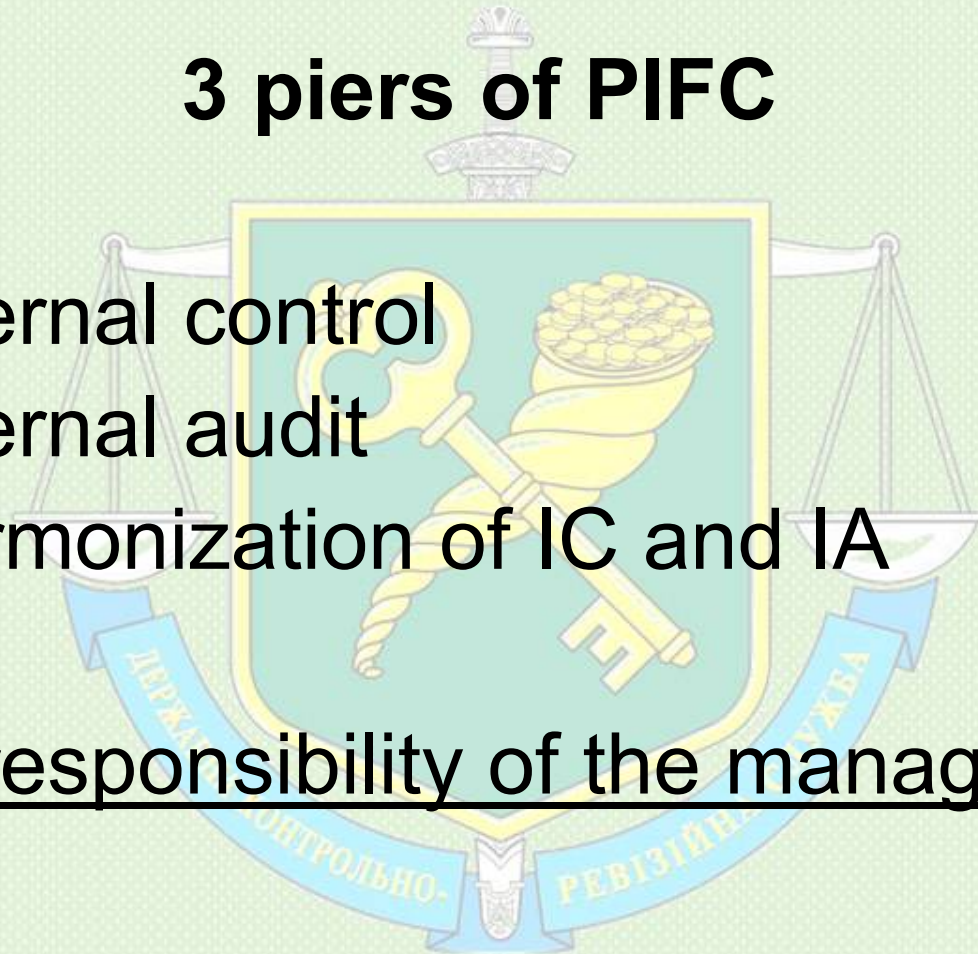


# Ukrainian reforms of PIFC are based on European model

## 3 piers of PIFC

- internal control
- internal audit
- harmonization of IC and IA

+ responsibility of the manager



PUBLIC INTERNAL  
FINANCE CONTROL

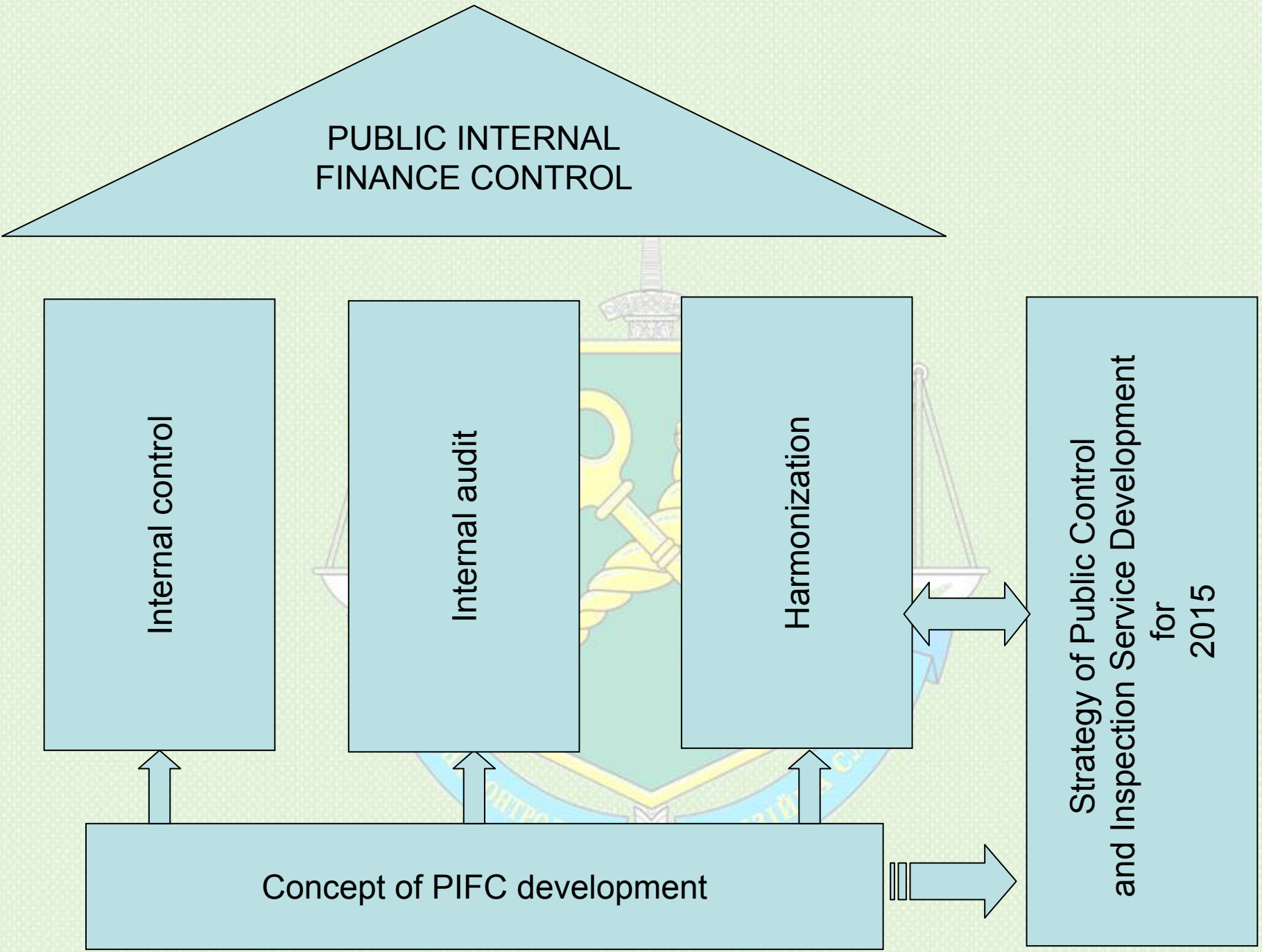
Internal control

Internal audit

Harmonization

Concept of PIFC development

Strategy of Public Control  
and Inspection Service Development  
for  
2015



# REFORMING OF PIFC IN UKRAINE

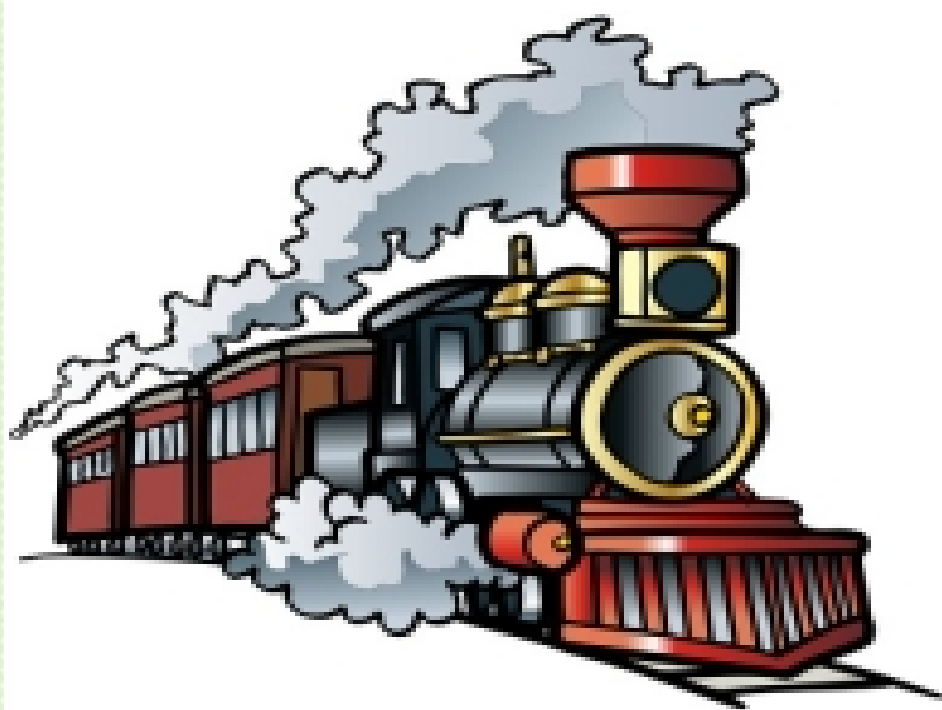
Regulatory and  
methodological  
support

Training of the staff,  
information support,  
software,  
hardware

Organizational  
and structural  
changes

## Key Tasks

- Building internal control
- Establishing internal audit
- Ensuring institutional capacity of CHU
- Modernizing public control and audit service



# ***MFU and CRO***

***in Ukraine is a  
locomotive of  
reform of PIFC, and  
CHU is its engine***

***The goal of CHU is to make a  
procedural, legal, informational  
and organizational contribution  
to efficient function of internal  
control and internal audit in  
public sector***





# ***Twinning Project "Assistance to MainCRO in development of the new PIFC system" has opened the reforms:***

- ❑ it was implemented on basis of a contract between European Commission Representation in Ukraine, Swedish National Financial Management Board and MainCRO;**
- ❑ the project was planned for 2 years (September 2007 – September 2009);**
- ❑ the project involved participants not only from Ukraine and Sweden, but also experts from Great Britain, Northern Ireland, Italy and Portugal. In Ukraine, except MainCRO and MoF, it also involved direct participation of many other participants – Ministry of Economy, Ministry of Regional Construction, State Commission on Reserves, Pension Fund, etc. ;**
- ❑ the project embraced 4 key tasks:**
  - internal control**
  - internal audit**
  - harmonization of internal control and internal audit**
  - PIFC modernization**
- ❑ the project focused on 4 main activities (components):**
  - assistance to development of a relevant legal framework**
  - assistance to institutional development of CHU**
  - assistance to CHU in development of methodologies and tools of internal control and internal audit**
  - training**



# MAJOR RESULTS OF THE *Twining* PROJECT

## INTERNAL CONTROL

- STANDARDS, METHODOLOGIES, PRACTICAL RECOMMENDATIONS;
- TRAINED ARE: 35 EMPLOYEES OF 17 ORGANIZATIONS;
- 9 PILOT PROJECTS;
- NUMEROUS WORKSHOPS, ROUND TABLES;
- MASS MEDIA COVERAGE

## INTERNAL AUDIT

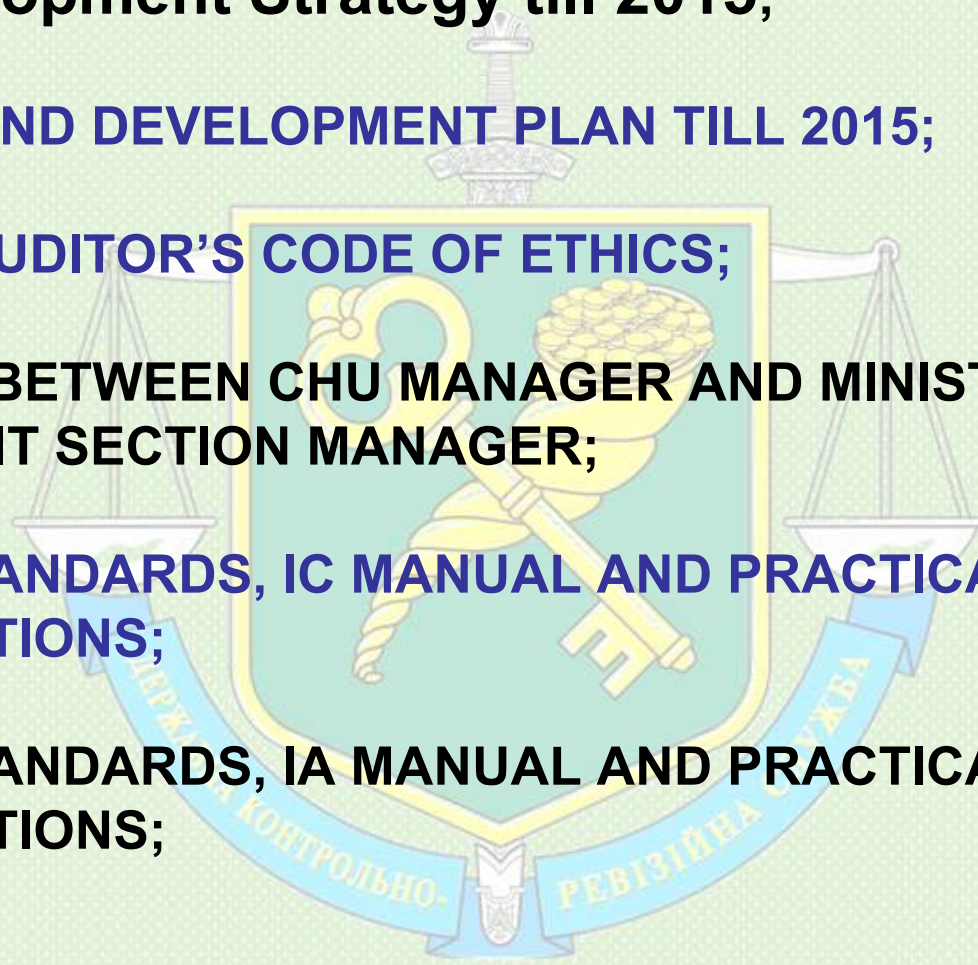
- STANDARDS, MANUAL, CHARTER, PRACTICAL RECOMMENDATIONS;
- TRAINING: INVOLVED 119 EMPLOYEES OF 49 ORGANIZATIONS, OF WHICH 62 FROM 37 ORGANIZATIONS COMPLETED THEIR BASIC TRAINING;
- 5 PILOT AUDITS;
- NUMEROUS WORKSHOPS, ROUND TABLES;
- MASS MEDIA COVERAGE

## IC AND IA HARMONIZATION

- CHU ACTION AND DEVELOPMENT PLAN TILL 2015;
- PROFESSIONAL QUALIFICATIONS;
- DRAFT DOCUMENTS ON IC AND IA;
- PARTICIPATION IN ALL 14 PILOT PROJECTS;
- TRAINING: IC – 13 SPECIALISTS, IA – 5; ENGLISH LANGUAGE – 5;
- TRAINERS' TRAINING – 13 SPECIALISTS;
- CHU REPORTING;
- NUMEROUS WORKSHOPS, ROUND TABLES, MASS MEDIA COVERAGE

# MAIN “OUTPUT” OF THE *Twining* PROJECT

- **PFIC Development Strategy till 2015;**
- **CHU ACTION AND DEVELOPMENT PLAN TILL 2015;**
- **INTERNAL AUDITOR’S CODE OF ETHICS;**
- **PROTOCOL BETWEEN CHU MANAGER AND MINISTRY’S INTERNAL AUDIT SECTION MANAGER;**
- **IC DRAFT STANDARDS, IC MANUAL AND PRACTICAL RECOMMENDATIONS;**
- **IA DRAFT STANDARDS, IA MANUAL AND PRACTICAL RECOMMENDATIONS;**
- **IA CHARTER**



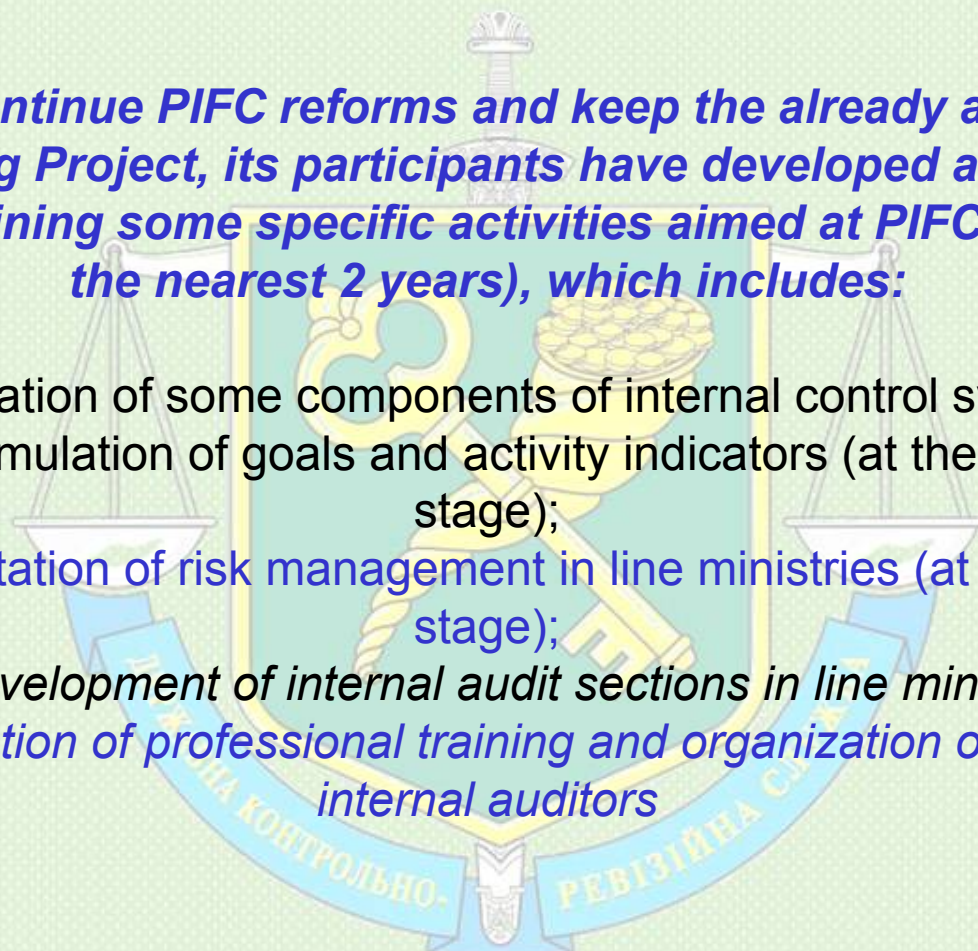
***Although the Twinning Project has been recognized as most successful among similar ones:***

- **not all of the drafted documents have been also legally adopted**
- **number of trained specialists does not reach even 5 % of the minimum required to actually start building IC and IA services**

# ***Efforts aimed to reform PIFC must be continued, and project achievements must not be lost.***

***In order to continue PIFC reforms and keep the already achieved results of the Twinning Project, its participants have developed a ROAD MAP (a document defining some specific activities aimed at PIFC reform within the nearest 2 years), which includes:***

- ***Implementation of some components of internal control system in line ministries, formulation of goals and activity indicators (at the development stage);***
- ***Implementation of risk management in line ministries (at the beginning stage);***
- ***Development of internal audit sections in line ministries;***
- ***Implementation of professional training and organization of certification of internal auditors***



# Current priorities to reform PIFC

|   |   | Ministry of Finance, the Netherlands, PAUCI | SIGMA | TAIEX, ADETEF | World Bank |
|---|---|---|-------|---------------|------------|
| <b>CHU</b><br><b>CRO</b><br><b>MFU</b><br><b>Activities</b> | Legislative work  | ●   | ●     |               | ●          |
|   | Organization and running of workshops, trainings and exchange of experience | ●   | ●     | ●             | ●          |
|   | Pilots  | ●   |       |               |            |
|   | CHU Development   | ●   | ●     | ●             |            |
|   | Popularisation of PIFC reforms at the central and regional levels           | ●   | ●     | ●             |            |

# OBSTACLES IN PIFC REFORM

## ***RISKS DUE TO ENVIRONMENT, CIRCUMSTANCES AND PRACTICAL IMPLEMENTATION:***

- **DELAYED ADOPTION OF THE NEW LEGISLATION ON IC AND IA;**
- **LEADERSHIP OF AN ORGANIZATION IS NOT INTERESTED IN IMPLEMENTING A NEW PIFC MODEL;**
- **ORGANIZATION'S GOALS AND THEIR INTERACTION WITH QUALITY MANAGEMENT SYSTEM ARE NOT CLEARLY DEFINED;**
- **MOST SPECIALISTS HAVE INSUFFICIENT KNOWLEDGE ABOUT ORGANIZATION OF IC AND IA OR ABOUT EXPERIENCE OF OTHER COUNTRIES;**
- **ABSENCE OF LEGAL GUARANTEES TO MATERIAL INCENTIVES AND CAREER PROMOTION OF THE TRAINED SPECIALISTS.**

## ***RISKS DUE TO FINANCIAL CRISIS:***

- **INSUFFICIENT RESOURCES TO BUILD IA SERVICES;**
- **INSUFFICIENT RESOURCES TO IMPROVE THE QUALITY OF TRAININGS, WORKSHOPS AND STUDY VISITS;**
- **INSUFFICIENT QUANTITY OF CHU AND LACK OF RESOURCES TO BUILD REGIONAL SERVICES.**



**What can help us reach  
the objective of PIFC  
reform???**

- 1. SUPPORT TO REFORMS AT THE TOP LEVEL,  
CONSISTENT POLICY OF PIFC REFORM AT ALL LEVELS;**
- 2. CHU DEVELOPMENT, BUILDING REGIONAL  
SERVICES;**
- 3. FURTHER COOPERATION WITH INTERNATIONAL  
ORGANIZATIONS;**
- 4. OPENNESS, CONSISTENCY, COORDINATION OF  
ACTIVITIES BETWEEN MAIN PARTICIPANTS IN PIFC  
SYSTEM REFORM.**

**Спасибо за  
внимание!**  
**Thank you for  
attention!**

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