Ministry of Finance
Armenia

The PIFC Concept & Implementation in Armenia

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The PIFC concept

- What is PIFC?
- 3 pillars of PIFC
  - Managerial accountability /FMC systems
  - Internal Audit
  - Central Harmonisation Unit(s)
- PIFC environment
- Benefits of introducing PIFC

What is PIFC?

- An integrated and operational model developed by the European Commission for re-engineering internal control systems in the public sector in line with international standards
- EU accession requirement (Chapter 32)

3 pillars of PIFC

- PIFC = FMC + IA + **CHU**
- 3 main pillars:

1. ***FMC*** - Managerial accountability, underpinned by Financial Management and Control Systems

2. ***IA*** - Functionally independent Internal Audit

3. ***CHU*** - Central Harmonisation Units(s)

Financial Management and Control (FMC)

- Managerial accountability.
  - Change of culture: From input-oriented to output-oriented management

- FMC systems are established by Top Manager and they carry out the tasks of
  - Planning, Programming, Budgeting, Accounting
  - Controlling (preventive and detective controls)
  - Reporting
  - Archiving
  - Monitoring

  to cover all public money, no matter source:

  Commitments, tendering and contracting, income, assets and liabilities, recovery of unduly paid amounts

Internal audit

- Advisory function to help manager to assume his responsibility
- Functionally independent from management
- Assesses adequacy of FMC systems through:
    - Compliance audits; Performance audits; IT audits
- Makes recommendations for FMC systems improvement: adds value for management
- Works on basis of highest degrees of objectivity, integrity and professionalism

Central Harmonisation Unit (CHU)

- Central harmonisation of FMC and IA methodologies according to international standards is the key success factor for PIFC introduction and development:
  - Scope of task: public sector at large
  - Length of process: several years
  - Driver for change: maintains proper environment and is centre for excellence

Central Harmonisation Unit (CHU)

- Usually located in the Ministry of Finance
- Evolving role of a CHU over time:
  - Phase 1: PIFC development and promotion
  - Phase 2: Coordination of PIFC implementation
  - Phase 3: Monitoring and evaluation of PIFC implementation

PIFC environment: Inspection

- **Centralised inspection**
  - outside the PIFC model, but its parallel reform is required in order to facilitate implementation of PIFC
  - Inspects third party complaints
  - Focuses on (questionable) transactions and budget rule violations
  - Corrects/ punishes human errors

PIFC environment: Budgeting

- Move from input- to output-oriented budgeting:
- Input-oriented budget
  - Risk perceived by manager: Not able to deliver against the budget
  - Controls: Tight controls over the detail of spending
  - Internal audit: Legality/regularity, not performance
- Output-oriented (activity-based) budget
  - Risk perceived by manager: Not able to deliver objectives according to 3Es
  - Controls: According to acceptable risk
  - Internal audit: Also performance

PIFC environment: Accounting

- Move to activity-based budgeting goes hand in hand with the move to accrual accounting
- Accrual accounting aims to improve quality of information to the management (3Es)
- Advantages and disadvantages

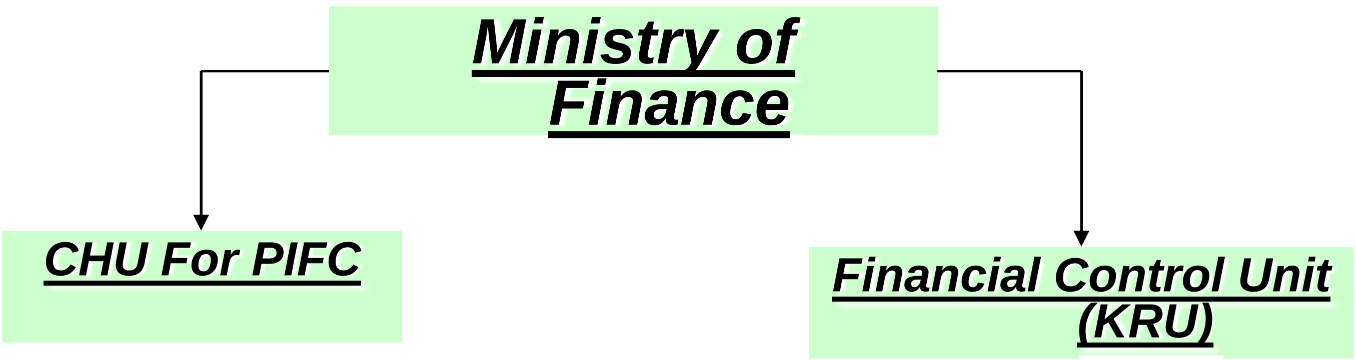
Benefits: Public sector at large

- Contributes to good governance
- Increased accountability and transparency in spending public money
- Spending public money well: economically, efficiently and effectively (3Es)
- Preventive tool in fight against fraud and corruption

Benefits: Organisation

- Less likelihood for errors
- Organisational structures become more transparent which means less vulnerability for misuse and fraud
- Improvements in terms of
  - Efficient and effective operations
  - Reliable management reporting
  - Compliance with laws and regulations
  - Protection of assets including organisational reputation

PIFC System in Armenia



CHU for PIFC

- Is responsible for development and enforcement of methodologies for public sector financial management, internal control and internal audit.
- Prepares training programs for internal auditors and sets the qualification criteria.
- Receives, analyses and publishes the internal audit reports (without implementation of documentary and inspection control/oversight).

Financial Control unit

- Implements inspection/ex-post control function (oversight) towards appropriate use of public funds, according to the defined conditions.
- Actually is a “Financial police”, which;
  - **should not function according to the preliminary approved plan (annual or other), but should only act based on received claims, or issues of fraudulent nature raised by the management,**
  - **control (inspection) should be targeted (transactional on ad hoc basis), and not complex or systematic.**

Ministries, NCOs, Communities

- Management is responsible for:
  - Internal Audit
  - FMC

External audit:

Chamber of Control

Evaluates the financial control systems, ***including internal audit systems*** of Ministries, NCOs and Communities, through audit.

Challenges in implementing PIFC model

- ***Political readiness for reforms and for decentralization***
- ***Adequacy of the environment and related systems***
- ***Low capacity***

Questions for discussion

- ***Possible risks related to model of ex-post Financial Control system selected in Armenia***
- ***Should Financial Control Unit (KRU) check works of Internal auditors and should they have any interactions with CHU?***

Thank you!

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