

*Summary and the key
messages from
the Meeting of the IC
Working Group
and the Plenary Meeting*

Another successful meeting

- The PEMPAL Internal Audit Community of Practice (IACOP) organized another successful meeting!
- This time it took place in beautiful and hospitable Georgia.
- The program of the meeting was perfectly balanced between the presentations, discussions and work in the groups.
- All the meetings' objectives were met!
- It provided a great opportunity not only to share practice examples from different countries but also to work on a new IACOP knowledge product, which can be further developed for wider use in PEMPAL countries.



Internal Control Working Group

Summary:

- The concept of the three line of defense was presented. All of the three lines of defense (the IIA model) have a role to play in implementing the COSO framework. Internal audit, as the third line of defense, works to ensure that the first and second lines of defense are operating effectively
- Internal control system needs to be assessed on the regular basis, and action plans established to address any shortcomings
- The head of entity should be able to rely on internal audit work.
- The guidelines for assessing and strengthening the FMC of public administration were presented as an example that can be used by all lines of defense as a tool to evaluate Internal Control.
- The representative of the European Commission Internal Audit Unit shared a good practice of the establishment of Internal Control in the area of the Control Environment as well as the assessment of this area.

Internal Control Working Group

Summary (cont'd):

- The COSO internal control framework with its five components, 17 principles and supporting points of focus is applicable in the public sector context. There is however a need to include the specific governance arrangements that exist the Public Sector in place of the Board of Directors role in COSO.
- The first COSO component: Control Environment is the most challenging to implement in the public sector, and is the basis for all other components (the Control Environment reflects the tone at the top)
- The ICWG developed assessment criteria for all five principles of the Control Environment. The ICWG also considered how to reflect four different levels of maturity.
- The ICWG will work during future meetings to develop similar criteria for the next four components of COSO – Risk Management; Control Activities; Information & Communication and Monitoring & Evaluation. These will be consolidated and finalized in a new IACOP new knowledge product.

Plenary Meeting – added value of IA

Summary:

- Examples of good practices in demonstrating the Value of Internal Audit were presented from South Africa, the Netherlands and the European Commission. The following aspects were stressed:
 - the existence of a sound legal framework;
 - Independence of Internal audit
 - Competency of staff – getting and keeping the right people
 - Communication skills
 - Relevant assignments, based on risk assessment
 - Maintaining the quality of IA
 - Oversight and support to IA (for example from audit committees, CHU).
 - Greater awareness of managers on internal audit role.

Plenary Meeting – added value of IA

Summary (cont'd):

How to demonstrate the Value of IA will need to evolve as IA units mature.

When IA units are still being established we need to focus on the generic benefits to our countries of changing the FMC system to include IA.

As IA is established and begins to carry out audit work we need to measure key criteria that are preconditions for success. For example:

- independence of IAS units and relationships with Senior Management,
- training of staff, quality assessment processes and reporting processes (The grandma test – would Grandma understand the report?)

Once IA is operating fully we can focus on traditional ways of demonstrating IA added value, including:

- KPIs relating the cost, timeliness and the results of audit
- number of recommendations accepted and implemented
- measuring stakeholders satisfaction through customer satisfaction survey and stakeholder meetings
- the effective communication of audit finding through well structured and pointy reports that grab the attention of senior managers

Plenary Meeting - IA roles

- It may be appropriate for IA units to develop a unique value proposition for the IA in the public sector. This could include:
 - **Knowledge** – *“I have knowledge of your business”*
 - **Focus** – *“I know the public sector”*
 - **Capacity** – *“We are professionally trained and work to International standards”*
 - **Speed** – *“We can get going quickly”*
 - **Cost** – *“We are a cheaper alternative to external service providers”*
- The role of the IA in fraud prevention, detection and investigation was also discussed and it was shown that IA should be able to recognize the red flags and know what to do when these signals arise.

Plenary Meeting - Georgia Case Study

Georgia presented the major reforms of the public sector that are ongoing. These reforms are complex and covers budget, civil service, anti-corruption, IA and Internal Control.

- There is very close cooperation between key drivers of the changes – the CHU, the Budget Department, the SAI and the Civil Service Bureau.
- The improvement of the quality of IA work was emphasized by the SAI representative.
- A success stories of the development of IA in the Ministry of Defence was presented and discussed.
- In responding to questions from Georgia representatives, key future steps recommended were to establish the national training and certification process for IA in the public sector.
- The possible ways of organizing the IA function in the public sector (decentralized vs. centralized, criteria for establishing the IA function, etc) were discussed and it was agreed that this topic could be considered at future meetings.

Plenary Meeting - IA effectiveness

Main findings from the discussion of assessing IA effectiveness were:

- 360 degree assessments should be done involving different stakeholders: auditee, managers, CHU, Audit Committee.
- Assessment of the IA units and also of the individual auditors has to be done.
- Both quantitative and qualitative indicators should be used.
- Different tools can be used: for example satisfaction questionnaires and Key Performance Indicators .
- More than one or two KPIs should be use for IA assessment, for example:
 - measuring costs of IA unit,
 - Number of audits per auditor per year,
 - Number and percentage of recommendations implemented,
 - Overall productivity of IA's time budget which should not be less than 70 per cent
 - Cash savings realized when recommendations are implemented.

Marketing Internal Audit

The meeting benefitted from a detailed presentation of the Austrian example of internal audit marketing

Some key messages were:

- The need to focus on the four main elements of effective marketing:
 - Attention
 - Interest
 - Desire
 - Action
- The right questions should be asked.
- The products, which reach the IA customers' needs, should be delivered.
- Products should be effectively branded- examples of certain IA products were presented to the participants.