COMMUNIQUE

PEMPAL IACOP

THEMATIC MEETINGS ON MODERN INTERNAL AUDIT AND

FINANCIAL MANAGEMENT AND CONTROL IMPLEMENTATION CHALLENGES

The 34rd IACOP Meeting was held in Bishkek, Kyrgyz Republic on 10-12 of June, 2015. The objectives of the thematic meetings were

- Learn from country experience in implementing Financial Management and Control (FMC)
- Learn/refresh good practices developed by IACOP on internal auditors training and certification (T&C)
- Identify good practices in effectively managing challenges faced in implementing CHU role
- Provide recommendations on the Public Internal Control (PIC/PIFC) reforms in Kyrgyz Republic
- Elaborate on the future IACOP activities in the area of PIC/FMC and on CHU role

The internal audit policy makers from IACOP and resource countries joined the meeting including high level officials (deputy minister level). The event was opened by Deputy Minister of Finance, World Bank Country Manager, PEMPAL task team leader, IACOP coordinator and IACOP Chair. They all emphasized the importance of PEMPAL events which help the countries to share experience and gain knowledge to improve their public financial management systems. The event agenda was constructed to address the reform challenges of the host country. The topic of each of the three days were: FMC, case clinic for Kyrgyzstan – which included presentation and discussion on the progress on their reforms, what they achieved so far and what challenges they face. From peers they get a lot of input and suggestions how to step ahead in future. The second day Training and Certification systems was also discussed. The third day was dedicated to challenges of CHUs.

The lessons learnt from the first day are:

- **PIC** is a better and broader term then PIFC, and legal framework should be based on that.
- COSO model is the prefered for internal control system.
- Established systems should highlight the key concepts: (**delegated**) **Accountability and Responsibility** and **Transparency.**
- **It is very important to have a good understanding of terminology for all stakeholders to avoid confusion**, e.g. "control environment" treated as external environment.
- **To have good understanding it needs Time and training**.
- Minister/mayor/the community foreman is in charge of FMC (2nd line) while all operational managers are responsible (1st line), but it should be not forgotten that internal control system is operated by all employee.
- **Where to start to implement FMC System**: Majority of countries started with creation of process list or process map and gap assessment, otherwise governance organization may not be clearly viewed and recommendations accepted; and then move to **risk management** and **internal audit. Remember Objective Setting** comes first.
- FMC is also a major **anticorruption** measure eg. fraud investigation in Czech MOF as part of the 2nd line of defense.
- **It would have been recommended that countries should start implementation with FMC before internal audit, but it happened vica versa.**
- **CHU should develop guidelines** and policies on the management control.
- **Audit Committee** is a key for effective FMC including IA (and its independence), and it is expected AC to review annual report and risk management. It also should obtain information on results on quality of FMC.

And the final and most important conclusion is that EVERYTHING DEPENDS ON MANAGEMENT, so it is important to raise awareness of political level and managers of organizations as well.

On second day there was opportunity to learn about the status of reforms. IACOP community were very glad to hear about that how positive effects PEMPAL made on the progress of reforms in legislation and by sharing practical experience eg. Kyrgyzstan used the Bulgarian example for intenal audit planning. However they are in the middle of reforms, and in this moment the biggest challenges they have are non-typical audits, lack of experienced and qualified internal auditors, lack of interest of head of organisations. All participants agreed the status of reforms are already showing a lot of effort and results. Kyrgyzstan elaborated an action plan for future development of PIC system which considered as good practice. Kyrgyzstan also established similar working groups like PEMPAL IACOP to share experiences of different regions in different professional areas. It shows that PEMPAL IACOP became a model for similar models in other areas and countries.

On third day the role and challenges of CHUs were in focus. During panel discussions there were very intensive discussion and we conclude the followings:

- CHU is responsible for developing and upgrading methodology, setting standards, coordination of FMC and IA, for certification and training.
- Audit methodology should contribute to better auditing.
- Well trained and certified auditor who has practice will contribute to the credibility of the profession.
- CHU should decide if develop national standards on internal auditing or use the IIA standards directly (when developping national standards, it should be upgraded according to changing in IIA standards).
- CHU should help in evolution in internal audit function, CHU must promote separation of internal audit from financial inspection.
- CHU should not take over managerial function over internal audit function.
- CHU should think about conflict of interest when performing quality assessment of internal audit function.
- CHU could promote the internal audit position through good results of quality assessment perfomed.
- CHU should promote much more mature IA units to move from compliance to performance audit. CHU should promote coordinated audit, that are solution to save money and improve the system on the horizontal level.
- Decentralised internal audit activity is preferable than centralised one (although even European Commission is going to centralise the audit function).
- National certification is recognised as the best solution.
- CHU should have employed also internal auditors with practical experience.
- CHU member should participate in the specific thematic audits, in coordinated audits, they will then have more credibility when will perform quality assessment.
- CHU should think of having auditors with special skills (i.e. IT skills) who will be centralised (posibillity to work for the whole system).
- CHU should marketing the internal audit function.

It should be highlighted that CHU should have a proactive role in advocacy of IA and change management.

Key CHU Challenges

1. How to obtain practical experience in the various disiplines of internal audit (IT, PA, FA, etc).
2. How to increase visibility, credibility, and influence of the CHU towards management and internal audit? Make a tiger with teeth.
3. Management understanding and support of IA is lacking.
4. Ethics and moral are the key challenges, including on incompetent decision makers in the public sector. Taking a drop of public blood by each inaccurate decisions.
5. How to help to make the organizational objectives SMART and the role of the CHU in developing a platform for IA to have a clear role.

6. How to continuously clarify the different roles and responsibilities between internal control actors (management) and internal audit?
7. How to attract, retain and motivate caliber cadre from private sector, those are from the private sector are limited knowledge of the public sector. How to build up critical mass as the limited number of IA staff.
8. Weak coordination between IA, CHU, EA – there is a need to use IT to improve communication including planning, documentation.
9. CHU collects reports however does not know the quality of the reports – how to improve the quality assurance. How to evaluate the IA recommendations – on a sample bases – yes, but not the role of the CHU. IA on a surface and may not go to the key rout.
10. To review the scope of the IA role to include expenditure review – going outside of the box.
11. CPD full coverage of IA staff and consistency is a challange.
12. Making it simple for internal auditors to understand COSO and internal control.

Closing motto: CHU should develop from tiger without the teeth to tiger with teeth!