# PEMPAL Internal Audit Community of Practice (IACOP)

**RIFIX Working Group meeting Report**

# Yerevan, Armenia, October 13-14, 2015

# The RIFIX working group meeting was organized in Yerevan, Armenia with participation of 50 members from 22 countries, and with involvement of resource team including Richard Maggs and Jean Pierre Garitte (Public Financial Management consultants), and experts from the Dutch Academy of Finance and Economics, and facilitation by the World Bank team. The meeting objectives were as follows: (1) finalize the draft Concept for Relationship of Internal Audit with Financial Inspection and External Audit *(*RIFIX); (2) review countries’ best practices in cooperation between external audit, internal audit, and financial inspection agencies (RIFIX); (3) develop a template of the agreement on cooperation between external audit, internal audit and financial inspection agencies in line with the best practice; (4) Learn from Armenian experience and challenges in RIFIX and \internal Audit reforms; (5) Suggest ways to effectively implement the RIFIX Concept Note.

# The participants reviewed good practices in the area of cooperation between external audit, internal audit, and financial inspection agencies (RIFIX). In particular, the experience of France was presented by Stéphan Roudil; Bulgarian experience, by Lyudmila Rangelova; and Dutch experience, by Manfred van Kesteren.

# Mr. Stéphan Roudil, certified auditor, general speaker from the French Central Harmonization Committee for Internal Audit, presented the approach used in France where the Chamber of Accounts, which is an independent body accountable to citizens and to the Parliament elected by them, certifies public accounts, while the Ministry of Finance, through the Financial Inspection, exercises control over all public revenues and expenditures in all central and local government authorities and their subordinate organizations. Also, the Ministry of Finance coordinates decentralized internal audits. It is of note that at the ministerial level there are not only internal audit units, but also inspection and control units which report to respective Ministers.

Mrs. Lyudmila Rangelova,Acting Director of the Bulgarian Executive Agency for Audit of EU Funds, explained on how her agency cooperates with internal audit units in the public sector. She presented the mission of the EU Funds Audit Agency, which is to provide assurance that the financial interests of the European Commission are properly protected and to assess whether the control and management systems for respective EU-funded programs are adequate and efficient so as to ensure reasonable guarantees that expenditure reports submitted to the Commission are accurate and thus provide reasonable guarantees that basic operations are valid and accurate.

Mrs. Rangelova presented an example of cooperation between internal auditors and the Bulgarian Agency for Audit of EU Funds, currently pursued on the basis of a formal agreement providing for information sharing on audit plans and joint use of control lists and instruments and defining the approach to be used by the audit agency, including aeuf.bg publications and trainings, both general and on-the-job.

Mr. Richard Maggs presented a revised version of the RIFIX Concept Paper for discussion. The participants agreed on the main differences between internal audit (IA) and external audit and between the supreme audit institution (SAI) and financial inspection (FI) as described in the document, which consist in the following: (a) FI bodies typically have the authority to impose fines on individuals who do not comply with financial regulations and norms; (b) FI and audit bodies report to different levels (FI, as a rule, reports to the Minister of Finance; IA units report to the head of the institution being audited; and the SAI reports to the Parliament); and (c) generally, audit agencies have greater authority as they assess the economic efficiency and effectiveness of public spending.

The meeting proposed and agreed that the developed document not only describes RIFIX conceptually, but also defines the Working Group’s approaches to this area, and thus the document should be structured as a Position Paper and supplemented with proposals set forth at the meeting. The final document will be presented and considered at a next meeting.

Mrs. Svilena Semeonova, Working Group co-leader, presented a draft template of the memorandum of RIFIX cooperation, based on experiences of Albania, Bulgaria, Kyrgyz Republic, Romania, Serbia, and Croatia.

The advantages of formal cooperation through providing a written framework for it, for example, in the form of an agreement, were defined by the participants as follows: definition of clear and regular rules and procedures; strengthening of mutual capacities of the parties in promoting proper management and accountability practices and better understanding of the importance of internal control by the management; greater efficiency and effectiveness of audits.

More often, such an agreement is made between a supreme audit institution and the ministry of finance; however, in some cases agreements are also made with the financial inspection or an audit agency for EU funds. The objectives of such memoranda include: better overall efficiency of audits and inspections in the public sector; lower probability of unnecessary duplication of work in the area of audit and control; reduced load on audited/auditing organizations with the avoidance of duplication of audits/inspections; improved and optimized areas of using audits [and inspections] based on risk assessment and identification of substantial risks; strengthening of mutual capacities of the parties in promoting proper management and accountability practices and better understanding of the importance of internal control by the management.

The cooperation is pursued through sharing information/ documents and annual plans for audits/inspections, developing methodologies, using certain aspects of peer work to define the nature, timing, and scope of applicable audit procedures, cooperating in performing some audit procedures, such as collection of audit evidence or inspection data, holding joint experience-sharing activities, such as discussions, trainings, meetings and workshops on cooperation issues, and roundtables.

Areas for cooperation include: assessment of internal controls in audit organizations; consistency of financial statements with laws and regulations; performance indicators and performance audits; risk management; development of audit procedures; completion of audit procedures; investigation of reports on fraud and corruption / violations of national laws. Particular areas are: public procurement; European Union funds.

The participants discussed and gave recommendations on how to improve the draft template, which will be discussed at the next meeting.

A presentation of Armenia’s progress in introducing internal audit, including a respective information system, was given to the Working Group. The presentation generated a lot of interest among the participants.

The participants also highly appreciated the opportunity of professional communication and discussions between RIFIX agencies within PEMPAL[[1]](#footnote-1), in the frame of the IACOP RIFIX Working Group in order to promote best practices of cooperation between the three types of agencies in various countries. Currently, there is no international forum where representatives from such institutions could meet to discuss these issues, and therefore the objectives of the Working Group are highly relevant.

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1. The RIFIX Working Group was created as a result of consultations between PEMPAL member countries concerning the need to delineate the functions of IA, SAI, and FI. For the first time, this topic was raised at the 7th plenary meeting of the community in Yalta in 2010. Discussion of the functions of FI and its relationship with IA continued at the 8th plenary meeting in Ohrid (Macedonia) in 2011. The expanded theme was presented during the 17th plenary in Hungary in 2012. At that meeting, the key issue for discussion was the principles and differences between the functions of SAI, IA, and FI. Formally, the RIFIX Working Group was set up at the 23rd plenary meeting in Tbilisi in 2013. [↑](#footnote-ref-1)