

## **INFORMATION DOCUMENT**

**The purpose** of the study visit is to become acquainted with the Poland's experience on internal audit, specifically on internal audit quality assessment and to apply knowledge gained in our country.

### **Objectives of the Study visit:**

1. Learn on Poland experience about the development of Public Internal Financial Control system;
2. To follow on internal audit methodology in Poland;
3. Learn on Poland experience about internal and external Quality Assessment for internal audit units.

### **Short history of PIFC and IA development in Moldova and progress in implementing PIFC**

- In January 2008 the Government approved a strategy for the development of PIFC which was subsequently replaced by a new Strategy as approved by the Government on the 2nd of July 2010. The PIFC strategy has been progressively implemented in the following way :

- The legal basis for the implementation of PIFC has been established through an amendment to the Budget System and Budget Process Law;
- A Central Harmonization Unit (CHU) has been created. The CHU is responsible for both FMC and Internal Audit and has a staff of 5 people against a complement of 7 posts;
- The regulatory and normative framework for internal audit has been created;
- The regulatory and normative framework for FMC has been developed through the adoption a full set of Internal Control standards in June 2009;
- PIFC Law has been adopted in September 2010.

- As of 2012, 58 internal audit units have been created, with approximately 105 staff.

However, some of these units exist in name only and have no staff assigned; other units have staff but are still in the process of establishing the IA function; and some of the internal audit units that have been staffed have been assessed by the CHU as carrying out financial revision. There is therefore still a considerable distance to travel before Internal Audit units are fully effective;

- There has been carried out various trainings on IA and FMC during the period of 2008-2012;

A very important point is that CHU developed guidance on quality assessment of internal auditors, but it relates more on assessing the compliance, rather than assessing the performance of

internal auditors. Also, relating to internal quality assessment, internal audit units do not have quality programs. That is why; the Study Visit to Poland will contribute to the updating of the existing methodology on QA which shall be more related to performance rather than compliance.

***Moldova needs to learn the following from Poland experience:***

1. How CHU can assess the quality of internal audit work, taking into account the confidential character of internal audit work?
2. How to assess the quality of internal audit work deeper than just filling the questionnaires?

**PIFC system in Croatia - Current state of play and future development**

After gaining status of a candidate country in 2004, the Republic of Croatia has been implementing last few years extensive reforms aimed at developing public finance management. One of these reforms was the establishment and development of Public Internal Financial Control (PIFC) in the Republic of Croatia.

The Sector for Harmonization of Internal Audit and Financial Control in the Ministry of Finance (Central Harmonization Unit) was in charge of implementing this system under Chapter 32 “Financial Control”.

The Central Harmonization Unit undertook numerous activities to create all the necessary assumptions for the establishment and development of the system, including:

- adoption of the initial strategic documents;
- drafting and endorsing of laws and bylaws;
- set up of organizational capacities, including human resources; and
- Implementation of the system within budget users at both central government and local levels.

The activities carried out resulted in significant progress, the Public Internal Financial Control system has been successfully developing and on 27 July 2010 Chapter 32 was provisionally closed.

However, the public internal financial control system needs to be fully integrated into management processes and the importance of PIFC system should be further disseminated through the whole public sector of the Republic of Croatia. It is important to point out that the PIFC is an integral part of other reforms that are underway, such as budget reforms (initiated by the Strategy of Improvement and Modernization of Processes in the State Treasury system for the period 2007-2011 and the new Budget Act (OG 87/08)), Public administration reforms (initiated by the Ministry of administration) and Anti – corruption reforms.

In the period 2004 – 2012 the Central Harmonization Unit carried out several EU funded projects and projects funded by other sponsors that achieved the expected results, but also helped the Central Harmonization Unit to identify key areas in functioning of the Public Internal Financial System and ways how they should be in line with EU best practice.

The Central Harmonization Unit employs in total 18 staff. Its organizational structure is following:

- Service for methodology and standards (5 employees),
- Service for coordination of training and quality assurance (6 employees) and
- Service for international activities (5 employees),

including the CHU director and her secretary.

The Government of the Republic of Croatia for the needs of the public internal financial control system development in the public sector, in August 2012 adopts the Action plan of the public internal financial control system development in the Republic of Croatia for the period 2012 – 2013.

Activities contained in this Action plan are a follow-up of the activities performed so far and are directed towards further implementation of the long-term development objectives set by the 2009-2011 Republic of Croatia Public Internal Financial Control Development Strategy.

Concerning internal auditing, in the upcoming period special emphasis will be put on the internal audit work quality assessment and the manners in which internal audit is used by the side of the managerial structure.

As stated above one of the planned areas of internal audit development in Croatian PIFC Development Action plan for 2012-2013 is to improve the quality of internal audit work with the aim that internal audits are carried out in line with prescribed methodology and International Professional Practices Framework (IPPF)”. The Central harmonization unit will conduct external assessment of the quality of internal audit work in internal audit units which are established for more than five years. CHU is just developing methodological framework for external quality assessment.

### **Why Croatia needs this study tour?**

This Study tour will help Croatia to develop methodological framework for external assessment of the quality of internal audit work based on the experience gained by counterparts in Poland (examples of conducted external quality assessment of audit work, questionnaires, reports, measures undertaken in case of audit work of poor quality).

### **Development of PIFC in Albania**

Public Internal Financial Control (PIFC) was introduced in Albania after 2000 and it has its earliest beginning in February 2003, when the Law “On internal audit in public sector” was approved by the Parliament of Albania. This Law was followed by secondary legislation such as an Internal Audit Manual, a Code of Ethics for Internal Auditors and Internal Audit Charter in June 2004. As an aspect of the reform of public finance in Albania the Council of Ministers approved “The Policy Paper for PIFC System” in June 2005, which was the basis for the introduction of the EU PIFC

system in the Albanian public administration. The objective of PIFC is to create an environment that provides reasonable assurance that public funds are used to achieve the set objective as effectively and efficiently as possible. This environment should also be an effective tool to prevent corruption and fraud.

The new Organic Budget Law of 2008 emphasizes the role and importance of PIFC System as well the developments and strengthening of its elements managerial accountability, internal audit but also financial inspection. The existing legal framework is expected to be reached with other secondary legislation and regulations necessary for implementation of PIFC in full compliance with accepted standards

On the road to accession to the European Union, Albania is in the process of important conceptual, legislative and structural reform of the Public Internal Financial Control framework with the aim of strengthening the managerial accountability of the managers of public sector organizations and further develop independent internal audit. In this context, PIFC was approached in the framework of the general good practice principles constituting the EU acquires

The key role and responsibility for development, implementation and coordination of PIFC is given to Ministry of Finance, which fulfils this role with the support of Central Harmonization Units (CHU) for Internal audit (IA) and Financial Management and Control (FMC) and a Financial Inspection Service, all units situated in the Ministry of Finance, and Internal Audit Units in line Ministries and other public entities.

In order to ensure the transparency of public resources' management and spending, the legislator has introduced the requirement to the Council of Ministers (through the Minister of Finance) to report on an annual basis on the status of FMC and IA in the Republic of Albania to the National Assembly.

In 2010, the Council of Ministers adopted a new strategic document for the development of PIFC, which set out priority areas and particular implementation measures. Such priorities included: more detailed legal regulations on managerial accountability in the public sector, further development of independent of internal audit units, establishing a CHU for FMC and strengthening the CHU for IA and separating internal audit from financial inspection.

In order to implement these priority measures, new legislative acts and changes to the existing administrative structures were made to strengthen the role of internal audit in public sector (Changes in Internal Audit Law were adopted in October 2010), strengthening managerial accountability ( A new Law on FMC was adopted in July 2010) and separating internal audit from financial inspection (A new Law on Financial Inspection was approved and entered in force on October 2010). Throughout these reforms were accompanied with the establishment of proper administrative structures responsible to implement these legal frameworks.

The Internal Audit Law in public sector adopted in 2007 and changed in 2010 regulates the internal audit activity in the public sector. It is in line with International Standards for the Professional Practise of Internal Auditing of the Institute of Internal Auditors (IIA) The Albanian IA law has adopted the IIA's definition of internal audit. The internal audit function is decentralised and carried out by an internal audit unit. Each IA unit comprises at least one manager and two internal auditors. The IA law stipulates two other ways to organise an IA function: through the internal audit unit in the highest hierarchy level of a public institution, or through outsourcing to independent private internal auditors. It is underlined that the last possibility can be used only after the two others are considered and are considered not useful. The head of the public entity bears the responsibility for ensuring the independence of internal auditors when planning, carrying out and reporting on the

internal audit results. The IA unit reports directly to the highest level of management of the organization, which ensures the organizational and functional independence of internal audit function. An audit Committee, as an advisory body for Minister of Finance is established and is composed of nine members.

There are 124 IAU throughout public sector in Albania where 406 internal auditors exercise their role. The CHU/IA in MoF harmonises and coordinates the activity of all internal audit units. A special department within CHU carries out assessment of internal audit activities of IAU in public entities. Such assessment includes external quality assessments in order to point out the developments and weaknesses of internal audit activities, giving recommendations and advices to improve the quality of audit work and to assure the compliance with accepted standards.

The Central Harmonization Unit for Internal Audit was established in Ministry of Finance since 2003 and is responsible for developing and promoting audit methodologies on the basis of internationally accepted standards and good practices and for coordinating the implementation of new legislation on internal audit. It has the task of harmonizing the internal audit activity across all levels of government. Organizational structure of the CHU/IA is defined by the Prime Minister with the proposal of the Minister of Finance. It's obligatory that the CHU IA should have within itself an organized respective structure for the methodology, as well as that dealing with the external quality assessment, statistics and reporting, separated from the other audit structures and professional development and training.

CHU IA is composed in two Departments with 15 internal auditors. According to the responsibilities and roles that CHU has to play they are organized as following:

1. Department of Methodology, monitoring and quality assessment, ( 7+1)
2. 2. Department of Professional Development and Reporting/ Analyses ( 4+1)

CHU is headed by the Director General, who is a civil servant and is responsible in front of the highest management level, for all the internal audit activity in the public sector. In order to increase the affectivity and coordinating the audit activities, a Collaboration Agreement between Minister of Finance and Supreme Audit Institution (External Audit) became effective on May 2012. Beside the fact that both institutions are operating independently they cooperates in terms of exchanging information through Annual Report and Plans and joint trainings for internal and external auditors

Developing professional skills and knowledge is required by the IA law, as well the certification of all internal auditors who are active as internal auditors. The CHU IA has developed a certification system for internal auditors and is responsible for its implementation.. Only people holding the certificate of internal auditors issued by a State Commission can be recruited as internal auditors and all internal auditors active as internal auditors are obligated to follow continuous training (not less than 40 hrs/year). Until now, 1200 people have obtained the certificate nationally recognised and other 300 are under the process of certification.

A new Strategy for training and certification of internal auditors is under development by CHU/IA with the assistance of SIGMA. The new Training Strategy is expected to bring qualitative changes in certification and continuing Training Programme too. As a fundamental base to decide for future

developments, the external quality assessment carried out by CHU/IA in internal audit units need to be revised and to be brought in accordance with professional standards. Measuring and evaluating the performance of internal audit units should be designed to improve the quality of services offered by internal auditors. Under this frame a project supported by SIGMA includes the component of developing a “Methodology for quality Assurance” and it is foreseen to be completed by the end of the year 2012.

As one of the "three pillars" of the of Public Internal Financial Control System, Internal Audit has developed and continuously improved in order to take its modern role as advisor for the assessment and systems and contributing to the achievement of strategic and operational objectives of the organization, always in accordance with international standards and best practices.

In this context, the Minister of Finance through the CHU/IA and the CHU/FMC is responsible to develop and implement all measures necessary for the successful implementation of the PIFC model and achievement of high professional standards in the field of internal auditing in the public sector.

### The purpose of Study Visit to Poland:

Current developments of internal audit in Albania require to go gradually forward from system development towards monitoring of IA. It is the task of CHU to make compliance and quality assurance checks on whether its recommendations are being properly carried out and how to overcome any difficulties in the implementation of the adopted policies. In order to be successful in this very important task, Albanian auditors need to have good and updated methodologies and tools in place, which should be used by high professional skills and experienced staff.

#### **Under this frame we would like to have the possibility to :**

- ✚ Discuss about the Polish overall structure or framework for Quality Assurance (QA) activities; Standards & Practice Advisories related to a Quality Assurance and Improvement Program adopted and the way that they are implemented in Poland; Recognize the benefits associated with Quality Assurance and which tools are used for each phase of the QA process.
- ✚ ***How to Plan , perform and communicating results of the Quality Assessment :*** Analyze information gathered with QA tools used during the planning phase of the QA process; Identify the scope and objectives of an external QA. Describe the qualifications of QA teams; Communicate QA results using reporting formats and tools; Apply tools that are used in the evaluation phase of the quality assessment; Identify typical recommendations for common compliance issues or improvement opportunities; Develop observations and value-added recommendations for the QA report.

Looking at some practical cases how up mentioned process are implemented.