



# Internal audit in France

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# IGF

INSPECTION GÉNÉRALE DES FINANCES

# Internal audit within French State Administration

## Agenda

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- 1. The legal framework : Towards a risk management system by strengthening the internal audit function**
- 2. The overall approach and implementation of internal audit function and activities at State level**
- 3. Example of the French Ministry of Finance**



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# Towards a risk management system by strengthening the internal audit function

## The legal framework

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- ❑ **A decree (“décret”), overall legal framework for managing all risks**
  - Internal control and audit systems to manage all risks
    - Definition of an internal control system, under the coordination of the general secretary of each ministry
    - Definition of internal audit, independent function and objective activity
  - Central harmonisation committee for internal audit
- ❑ **A circular letter (“circulaire”), legal procedure to implement, in practise, internal audit function**
  - Internal audit committee : role, responsibilities, composition
  - Ministerial internal audit service : role and organisation, activities and functioning
  - Head of ministerial internal audit service
  - Internal audit charter

# Towards a risk management system by strengthening the internal audit function

## The legal framework

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- ❑ Decree n° 2011-775 of 28th June 2011 regarding internal audit within the public administration :
- ❑ **Implementing, into each ministry, an risk management approach based on an internal control and internal audit systems is mandatory**

***« In each ministry, internal control and internal audit systems, adapted to the objectives and the organisation, and aiming at ensuring the control of risks linked with the management of public policy they have in charge, is implemented ».***

# Towards a risk management system by strengthening the internal audit function

## The legal framework

### □ Decree n° 2011-775 of 28th June 2011 regarding internal audit within the public administration :

- *« Internal audit is an independent and objective activity giving to each minister an assurance on the level of control of the operations and bring him its advices to improve them. Internal audit verifies that internal control system is efficient »*

Definition of internal control :

- *« Internal control is the whole permanent and formalised systems, decided by each minister, implemented by all staff from all levels, under the coordination of ministry's general secretary, which aim at controlling the risks as regards the achievement of the objectives of each ministry »*

# Towards a risk management system by strengthening the internal audit function

## The legal framework

- ❑ Decree n° 2011-775 of 28th June 2011 regarding internal audit within the public administration :
- ❑ **Creation of a central harmonisation committee : “*Comité d’harmonisation de l’audit interne (CHAI)*”.**

Chaired by the minister of public reform, CHAI is in charge of :

- Designing the IA Standards and guaranteeing its compliance with International ones;
- Developing methodologies (conformity, efficiency, performance) and disseminate best practices ;
- Verifying each year the IA policy of each ministry.

# Towards a risk management system by strengthening the internal audit function

## The legal framework

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- ❑ Circular letter (« circulaire ») of the Prime Minister n°5540 of 30 June 2011 : Implementation of internal audit into each ministry :
  - Creation an internal audit committee ;
  - Settlement of an internal audit function linked to the minster ;
  - Appointment of an ministerial internal audit Head, member of CHAI.



# Towards a risk management system by strengthening the internal audit function

## The legal framework

### ❑ Circular letter (« circulaire ») of the Prime Minister n°5540 of 30 June 2011 : **Implementation of internal audit into each ministry**

- Creation of an internal audit committee (IAC) :

As a guarantee of independence of internal audit function, IAC is in charge of :

- Defining of internal audit policy ;
- Verifying the quality of internal control and risk management systems ;
- Approving the audit plan ;
- Ensuring the follow up of validated recommendations.

Chaired by the minister, IAC is composed by a low number of non executive members.

# Towards a risk management system by strengthening the internal audit function

## The legal framework

### ❑ Circular letter (« circulaire ») of the Prime Minister n°5540 of 30 June 2011 : Implementation of internal audit into each ministry

- Settlement of ministerial internal audit function :

Directly connected with the minister and with an entire scope of work (all ministerial functions and business), IAF is in charge of :

- Proposing, on a risk based audit approach, the internal audit plan ;
- Carrying out assurance and consulting engagements ;
- Ensuring the dissemination of good practices to all public agencies depending on the ministry.

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# The overall approach and implementation of internal audit function and activities

## Prerequisite to the IA reform : The IC system

### The internal control environment to take into consideration

#### ❑ Centralised public accounting function

National regulation on public accounting (“Décret de 1962”) concern :

- All public entities : State administration, local communities, agencies
- All funds : Expenditures and revenues

=> Segregation of duties :

- Public managers (“ordonnateurs”)
- Public accounters (“comptables publics”)

# The overall approach and implementation of internal audit function and activities

## Prerequisite to the IA reform : The IC system

### The internal control environment to take into consideration

#### ❑ Reform of French public management

- Constitutional bylaw on budget Act (“LOLF”) – voted in 2001; implemented since 2006 :
  - Public policy => Missions => Programmes => Actions (**objectives**)
  - Greater **accountability** for programme manager
  - **Results-oriented** budget with performance targets and indicators (each programme)
  - New system of **responsibility**
  - New **accounting system**
- **Certification** of public accounts by the Court of Account

# The overall approach and implementation of internal audit function and activities

## Prerequisite to the IA reform : The IC system

### ❑ The key players of the overall internal control system

#### Executive level :

- At Programme level
  - The programme manager and staff
  - The Directors of Financial Affairs and Human Resources Departments and staff
- At ministerial level
  - The Secretaries-General of the Ministries and staff
  - The budgetary and accounting control service and staff
  - Inspection and control services
  - Internal auditors
- At interministerial level
  - The Directorate for the Budget
  - The Directorate-General for Public Finance
  - The central harmonisation Committee for Internal Audit

#### Legislative level :

- The Parliament
- The Court of Accounts



# The overall approach and implementation of internal audit function and activities

## The IA reform

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- ❑ First step - December 2008 : Benchmarking on audit and evaluation in the public sector – Study of 5 countries (OCDE) and European Commission.
- ❑ Second step - October 2009 : Report on “internal control and audit systems within the French state administration”.
- ❑ Third step - June 2010 : Decision of the “Council for modernisation of the public policies (CMPP)” chaired by the President of the French Republic.
- ❑ Fourth step – June 2011 : Publication of legal framework.
- ❑ Implementation

# The overall approach and implementation of internal audit function and activities

## The IA reform – 1st step, Benchmark

### ❑ The study of international comparisons – December 2008

- The scope of the study : Inspection, Evaluation, Internal audit ?
  - The objectives and types of engagements carried out by the services,
  - The institutional position of the services,
  - The relationships and the respective responsibilities with the external audit bodies.
- Sample : Canada – European Commission – USA – Netherlands – UK – Sweden
- The major trends observed :
  - All countries implemented for several years a structured internal and external audit system.
  - The internal audit services with strong guarantee of independence and very professional.
  - Variable types of internal audit engagements and the means.



# The overall approach and implementation of internal audit function and activities

## The IA reform – 2<sup>nd</sup> step, Scope

### ❑ Mission on designing French State internal audit policy – October 2009

- Request from the minister of budget, public accounts and State reform
  - To propose recommendations in order to design the French State internal audit policy and implement a coherent system within the French State administration,
  - Engagement letter to IGF on 23rd march 2009.
- Diagnosis of the existing systems and practises in this domains
  - In all ministries and a sample of public agencies.
- Assessment of:
  - Teams in charge of internal controlling and internal auditing
  - Their role and scopes
  - The level of compliance with the IIA international standards

# The overall approach and implementation of internal audit function and activities

## The IA reform – 2nd step, Findings

### ❑ Internal control system :

- Accounting oriented => Quality of public accounts => Certification by the Court of account
- Very few developed on operational objectives and core administration businesses
- Some ministries developed an internal control culture through the management and control of EU funds

### ❑ Internal audit :

- Mainly developed within the General Inspectorate, Inspectorate or Controlling services
- An organised internal audit function developed only in few ministries (internal audit committee and an internal audit charter)
- Certification approaches (individual or collective), very rare

# The overall approach and implementation of internal audit function and activities

## The IA reform – 2nd step, Recommendations

### ❑ **Priority** : set up internal audit function at ministerial level

According to the maturity of internal control system, internal audit activity should focus its resources on two objectives :

- The performance of advisory engagements aiming at the development of an internal control system as regards the entire scope of a ministry
- A risk analysis of the organisation in order to :
  - Help the management to develop internal control reference documents,
  - To be used to plan the audit assignments.

⇒ Designing the organisation of the French State internal audit system in compliance with the international Standards

⇒ **To develop a risk management system**

# The overall approach and implementation of internal audit function and activities

## The IA reform – 2nd step, Recommendations

- Measures aiming at organising internal audit activity at ministerial level with the entire scope of risks (all public policies and programmes)
- The creation of a central harmonisation committee on internal audit ensuring the coherence of the State internal audit policy and its implementation
- Measures to adapt the International Standards of internal audit according to the specificities of the French administration and ministries



# The overall approach and implementation of internal audit function and activities

## The IA reform – 3rd step, Validation

### ❑ Measures validated – Implementation period 2011-2013

- Managing the risks: an essential stake of the public management in France
- The French State administration has to set up a coherent system of internal audit in compliance with the International Standards.

### ❑ The orientations of the reform

- **Ensure a relevant development of the State internal audit policy :**
  - Strengthen the internal control system within each ministry, aiming at ensure a risk management regarding all public policies they implement.
  - Organise internal audit activity at ministerial level with, in each ministry :
    - An internal audit committee,
    - An internal audit service.
  - Set up a central harmonisation committee ensuring the overall coherence of the French State internal audit policy and its implementation.

# The overall approach and implementation of internal audit function and activities

## The IA reform – 3rd step, Validation

- ❑ **An overall approach, within the State administration, for managing the risks**
  - ⇒ generalisation of internal control and audit within all administration
  - ⇒ A new legislation providing a common framework to develop, with the help of internal audit service, a global risk management system
- ❑ **The central harmonisation committee and the internal audit committees as key players to lead the implementation**
- ❑ **A pragmatic time schedule and a progressive implementation**
  1. The new legislation and creation of IA structures ;
  2. The development of a risk management approach, first on financial issues, and second on core businesses ;
  3. The generalisation internal control and audit on all operational and support processes within a ministry.

# The overall approach and implementation of internal audit function and activities

## The IA reform – Results

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- ❑ **A decentralised IA function in compliance with the IIA Standards :**
  1. On the entire scope of objectives and risks (all public policies and programmes)
  2. An independent internal audit committee, chaired by the minister
  3. An internal audit service

# The overall approach and implementation of internal audit function and activities

## The IA reform – Results

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### ❑ A coherence of the State IA policy and its implementation

4. The role of a central harmonisation committee on internal audit chaired by the minister of public reform

### ❑ An adapted IA framework in compliance with the IIA Standards

5. Central level : Development of an internal audit framework (including standards and methodologies)
6. Ministerial level : Definition and approbation of an internal audit charter in compliance with the internal audit framework

Approved by the internal audit committee



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# Implementation of internal audit

## Example of French ministry of finance

### *Situation before the reform*

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- ❑ **Audit committee :**
  - Chaired by the general secretary
  - Composed with executives
- ❑ **Audit charter**
  - Focused on Accounting processes and its risks
  - Types of engagements : financial and accounting audits (pre certification), process audit, consultancy
- ❑ **Committee of audit methodology**
  - Planning and methodology
  - Composed with Heads of internal audit or inspection services
- ❑ **Internal control and audit service**
  - Coordination of IC and audit
- ❑ **Services of Inspection, internal audit and/or Internal control within de directorates**
- ❑ **With or without audit committee**



# Implementation of internal audit

## Example of French ministry of finance

### *Situation on internal audit after the reform*

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#### ❑ Central harmonisation committee on IA

- IA public Standards and common methodology
- Annual examination of ministerial audit policy

#### ❑ Internal audit committee

- Composed with a majority of independent members (non executives)
- Chaired by the ministers

#### ❑ Audit charter (harmonised)

- Focused on all processes and risks

#### ❑ Internal audit function

- Managed by a Head of IAF
- Planning and methods
- Composed with Heads of internal audits and Inspection services

# Implementation of internal audit

## Example of French ministry of finance

### *Situation on risk management after the reform*

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#### ❑ Internal audit committee

- Supervisory of risk management system
- Internal audit policy

#### ❑ Risk committee

- Performing the risk management policy
- Monitoring the risks and risk appetite
- Chaired by the general secretary
- Composed by the executives

#### ❑ Audit charter (harmonised)

- Focused on all processes and risks

#### ❑ Internal audit function

- Planning and methods
- Composed with Heads of IA or I services

#### ❑ Risk management and Internal control service (RMICS)

- Coordination of risk management and internal control systems

**Thank you for your attention**

**Question ???**



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