

Summary Note

PEMPAL IACOP Internal Control Working Group

February 25, 2021

Smart Interactive Talk (SIT) on

Update on the progress achieved and way forward in the context of the pandemic

(a) Background

1. Launched in 2016, the Internal Control Working Group (ICWG) looks at the role of internal audit and the central harmonization unit (CHU) in the assessment and development of public internal control. The areas of focus have included the COSO (Committee of Sponsoring Organizations of the Treadway Commission) Framework principles of effective internal control and their application in the public sector context; the three lines model; and the challenges of implementing internal control in the public sector. The ICWG aims to increase the knowledge and understanding of the PEMPAL members on best practices in internal control concepts, processes, and approaches.
2. Since the COVID-19 pandemic breakout in March 2020, the ICWG has been working virtually (the last face-to-face meeting was in October 2019) on different knowledge products. The ICWG continues to make progress despite the constraints posed by COVID-19. It has developed two knowledge products during the period as presented below. The SIT was an opportunity to review recent progress and discuss ongoing challenges and good practices in the implementation of internal control in the context of the pandemic.

(b) Progress made by ICWG and knowledge products developed

3. The ICWG has developed two knowledge products in the last year. The first is a detailed glossary of internal control terminology called ***PEMPAL Glossary of Terms: Internal control***. Published in June 2020, this was the result of an extensive series of discussions over three in-person meetings to develop a common understanding of internal control and its application in PEMPAL member countries. The second, most recent, is a guidance note called ***“Assessing the Effectiveness of Internal Control: PEMPAL Guidance for Public Sector Internal Auditors”***. Published in February 2021, this is one of the most extensive and detailed knowledge products produced by PEMPAL. It provides guidance on how to assess each and every principle in the COSO framework. A Kahoot quiz during the SIT underlined the range and depth of the material produced by the Working Group. Both knowledge products are available on the PEMPAL website. The glossary of terms is already being widely used as reference book for internal control terms in PEMPAL countries. The guidance on assessing the effectiveness of internal control is a long-awaited knowledge product and is expected to play a key role in assessing the internal control systems in public sector organizations in PEMPAL countries.

(c) Public sector internal controls during the pandemic: Key discussions

4. The World Bank and European Commission practitioners presented their insights on country experiences that sparked discussion on the challenges and good practices in the implementation of internal control in the context of the ongoing pandemic. The presentations focused on three topics:
 - *Overview of the impact of the pandemic on internal control & internal audit.* Presented by Mr. Richard Maggs (World Bank Expert, former Director General of the UN National Audit Office).
 - *Insights from the European Commission.* Presented by Mr. Emilio Camba Barbolla (Internal Control Standards Coordinator, DG Budget - Central Financial Service of the European Commission); and
 - *Insights from a country perspective.* Presented by Mr. Tomislav Micetic (Former Chair of PEMPAL IACOP ExCom and the Head of Service for Quality management, Ministry of Justice and Public Administration, Croatia).
5. Participants shared their experiences and discussed the CHU role in coordinating the internal control response during the pandemic in breakout groups. This also provided an opportunity to discuss practicalities derived from good practice frameworks.
6. The SIT addressed the impact of the pandemic on the five components of the COSO framework - the Internal Environment; Risk Assessment; Control Activities; Information & Communication; and Monitoring & Evaluation. These are discussed below.

Internal environment

7. There have been significant difficulties maintaining an effective control environment and motivating staff during the pandemic. Some public sector functions must continue to operate and cannot be carried out by staff working from home, for example the health sector. This means that some staff face psychological impacts related not only to the fear of COVID-19 and its menace, but also, from being at the forefront of the response to the disease. There is no doubt that some first responders will suffer post-traumatic stress as a result of the pandemic.
8. Croatia reported that the pandemic has served to evidence the need to improve their administrative capacity. Teleworking has also been a problem because of the technological capacity in place. In the EU, the Commission provided the technology and other resources needed to work remotely, surprisingly people have been able to work well from home. This new way of working has required more and better management of business, staff, technology, and resources to reassure and support staff through this process.

Risk Assessment

9. There have been significant changes in the risk profile. In some respects, significant new risks have been generated by the rapid implementation of financial support programs to address the economic impact of the epidemic. These are a major target of fraud and organized crime. The EC reported the need to develop better business continuity plans –

COVID-19 has revealed that in many organizations these have simply not been good enough.

10. In the EU, they carried out two horizontal exercises - an initial ad hoc review of the impact of the virus in terms of compliance and performance and a second specific consideration of the integration of COVID-19 issues into the risk assessments.

Control Activities

11. Controls need to be carried out in a different way. This may be because of the lack of physical inspection of assets, or because of the need to put in place electronic approvals. This will raise added concerns about network security and the use of technology to reinforce segregation. There is also the need to ensure that internal controls are able to meet new health and social distancing standards.
12. In terms of specific challenges, the EU reported on delays in the implementation of policies and programs and related ex-ante and ex-post controls. This has been addressed by simplified financial procedures and in particular by allowing member states to carry out remote verification audits in line with new guidelines.
13. In Croatia, they have put in place electronic payments and purchasing arrangements and established virtual private networks for accounting.

Information & Communication

14. The EU reported that there have been intensive internal and external communications actions including a COVID-19 website. Similar efforts have been made in Croatia in terms of email interaction and the use of software such as Microsoft Teams, shared folders, and cloud solutions to ensure effective communication among teams.

Monitoring & Evaluation

15. In the EU, the COVID-19 pandemic was declared a corporate cross-cutting risk. Central services are continuing to provide oversight and support.
16. At the third line, internal audits continue but with little or no face-to-face contact with audited entities. Auditing is being undertaken through video conferencing and other IT audit tools. Internal audit staff have been able to access files and conduct interviews on-line.

General conclusions

17. In terms of general conclusions about the impact of the COVID-19 pandemic on internal control, SIGMA in a review of internal controls across EU countries found that, where well-established, internal controls seem to continue to operate as before the crisis, especially in those countries that have mostly electronic systems in place. In these countries there has not been the need to change any specific procedures or processes. Where less well-established, interim solutions have been introduced such as the replacement of physical signatures by email approvals.

18. Overall ICWG has been making satisfactory progress and has responded well to the constraints imposed by COVID-19. It has continued to work quite productively and has developed two knowledge products during this period. Activities based on the IACOP's action plan are ongoing. Participants agreed that the pandemic continues to be a significant corporate cross-cutting risk, so central services should continue to provide oversight and support. Business continuity plans should be updated on a regular basis and be improved as new risks emerge in the context of pandemic. Remote verification and reviews will continue for some time, thus improvement of technology solutions enabling better remote work should be further improved.