

FINANCIAL MANAGEMENT AND CONTROL



Theory and recent
developments in EU

SVILENA SIMEONOVA,
Director of Internal Control Directorate,
Ministry of Finance, Bulgaria
MANFRED

Public Internal Financial Control model in EU

PIFC – Public Internal Financial Control

an Internal Control framework for the public sector that Candidate Countries must adopt to fulfil the conditions/ benchmarks of the negotiation chapter “Financial control” of the EU Accession

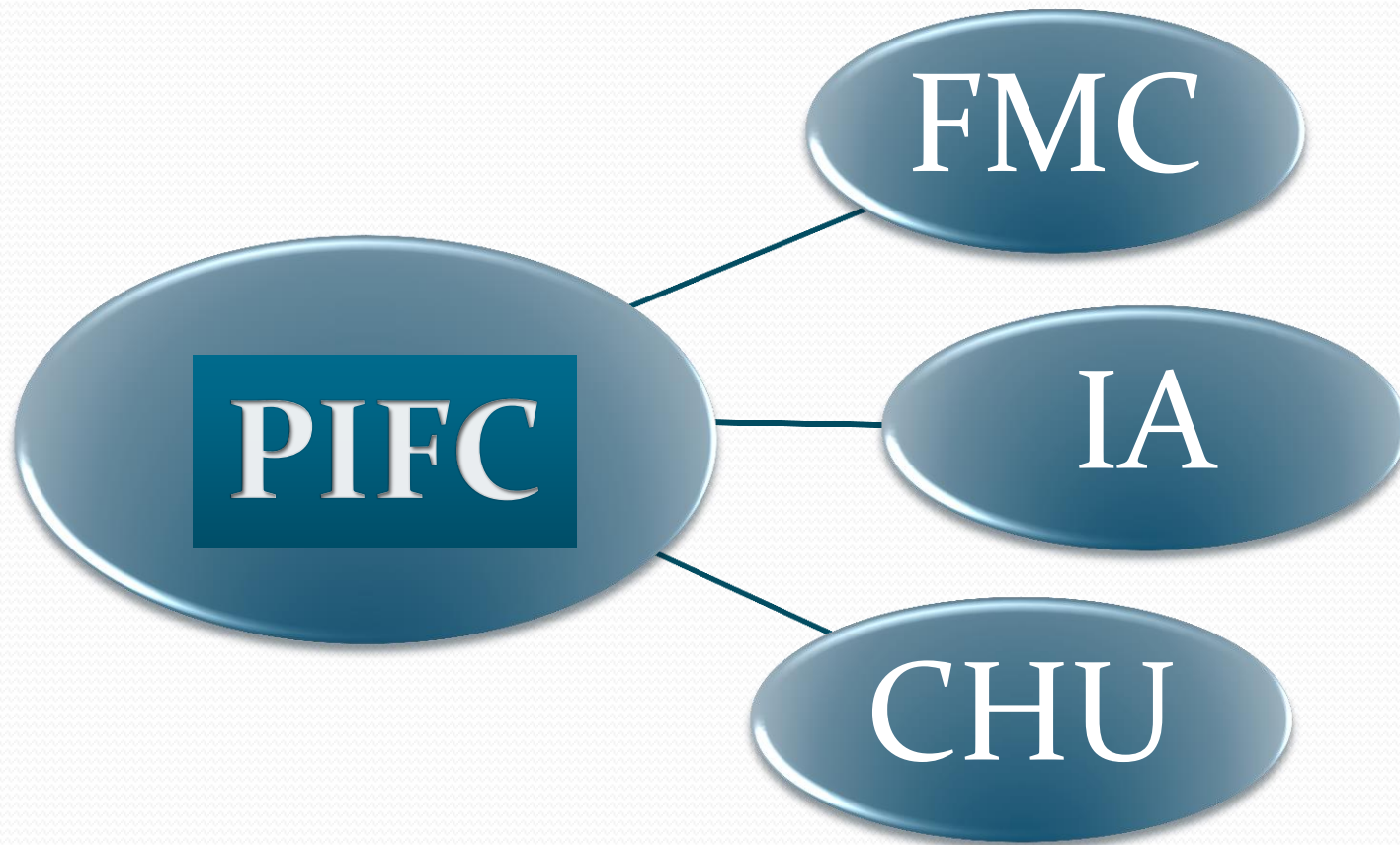
Negotiations, introduced since 1998-2000

- ❑ **New concept – Public Internal Control PIC** – focus more on the objectives and risk management, then on financial transactions
- ✓ There is no European legislation which binds the Member States

FMC systems



Public Internal (Financial) Control– European approach



Main pillars of the PIFC model

- Strengthening decentralized managerial accountability and **Internal Control**
- Establishment of independent **Internal Audit** within public sector organizations
- **Coordination** - Establishment of Central Harmonization Unit(s) for Internal Control and Internal Audit



- **Financial Inspection (as fraud and corruption investigation function) is not part of the model.** In the most of the EU countries exists as central separate entity (institution) or within the organizations along with Internal Audit function
- Supreme Audit Institution as an **external auditor** also is not part of the PIFC model

Definition of Internal Control

(COSO, INTOSAI)

A process, effected by an entity's Board of Directors, management and other staff, designed to provide reasonable assurance regarding the achievements of objectives in the following categories:

- efficiency and effectiveness of operations –
- reliability of (financial and other) reporting –
- compliance with laws and regulations
- safeguarding of assets

Internal Control systems in the EU

Two main models:

Nordic model - Denmark, Netherlands, Sweden, UK, 13 new Member States

- Based on full decentralised managerial accountability and functionally independent internal audit.
- Manager is accountable for meeting organisational objectives (financial and non-financial)

Latin model

- Centralised control function focusing on ex-ante controls, some sub-functions may be delegated
- Internal control as a centralised collective responsibility in relation to controlling public funds

Base of the Internal Control systems in the EU

25 out of 28 Member States base their systems on

- COSO framework (including INTOSAI guidelines for internal control)

- IPPF oriented standards for Internal audit
 - Either IPPF directly applicable in national law
 - Or national standards 'copy' IPPF



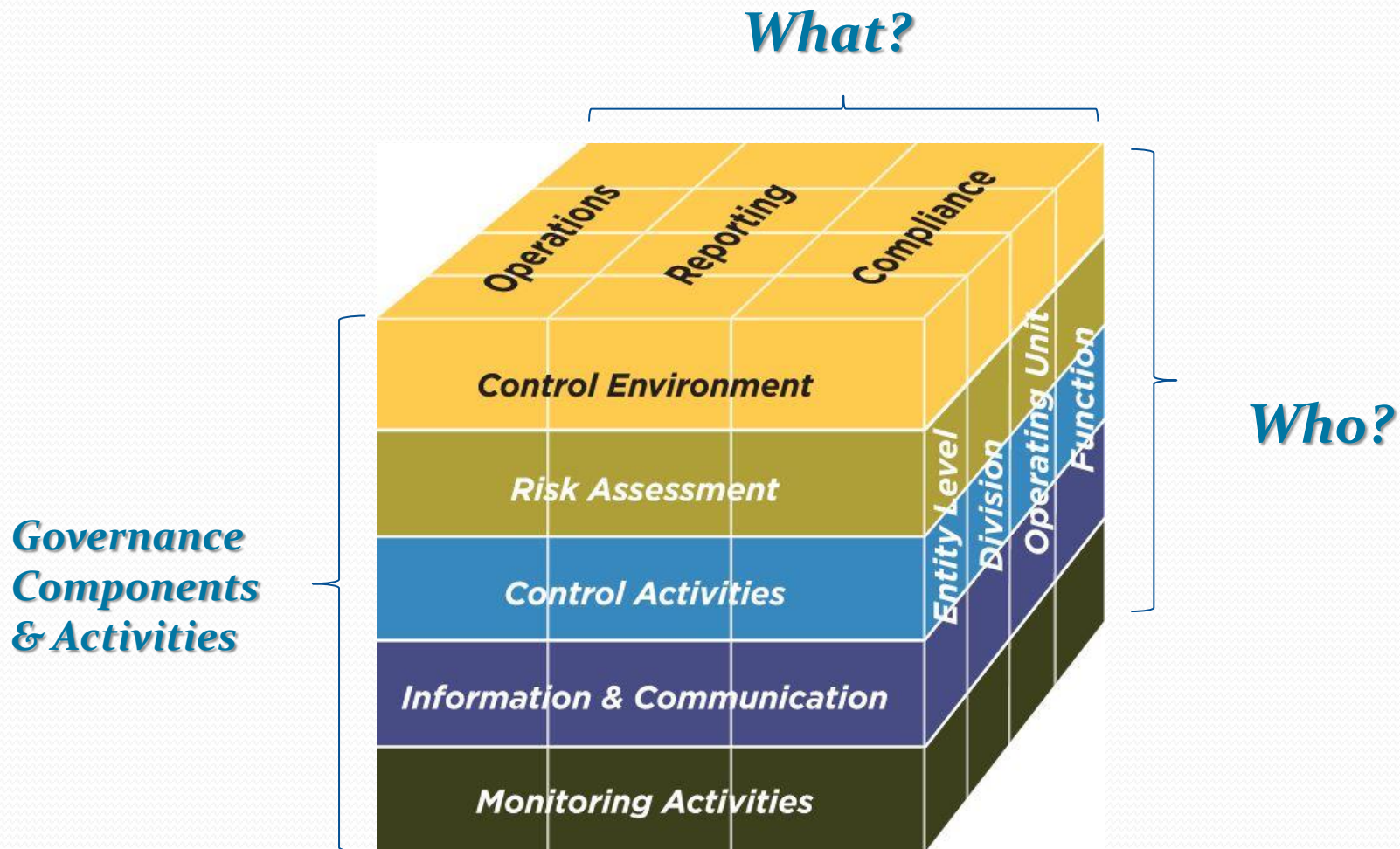
Compendium (2nd edition 2014)

- http://ec.europa.eu/budget/pic/compendium/index_en.cfm
- <http://ec.europa.eu/budget/pic/lib/book/compendium/HTML/index.html>

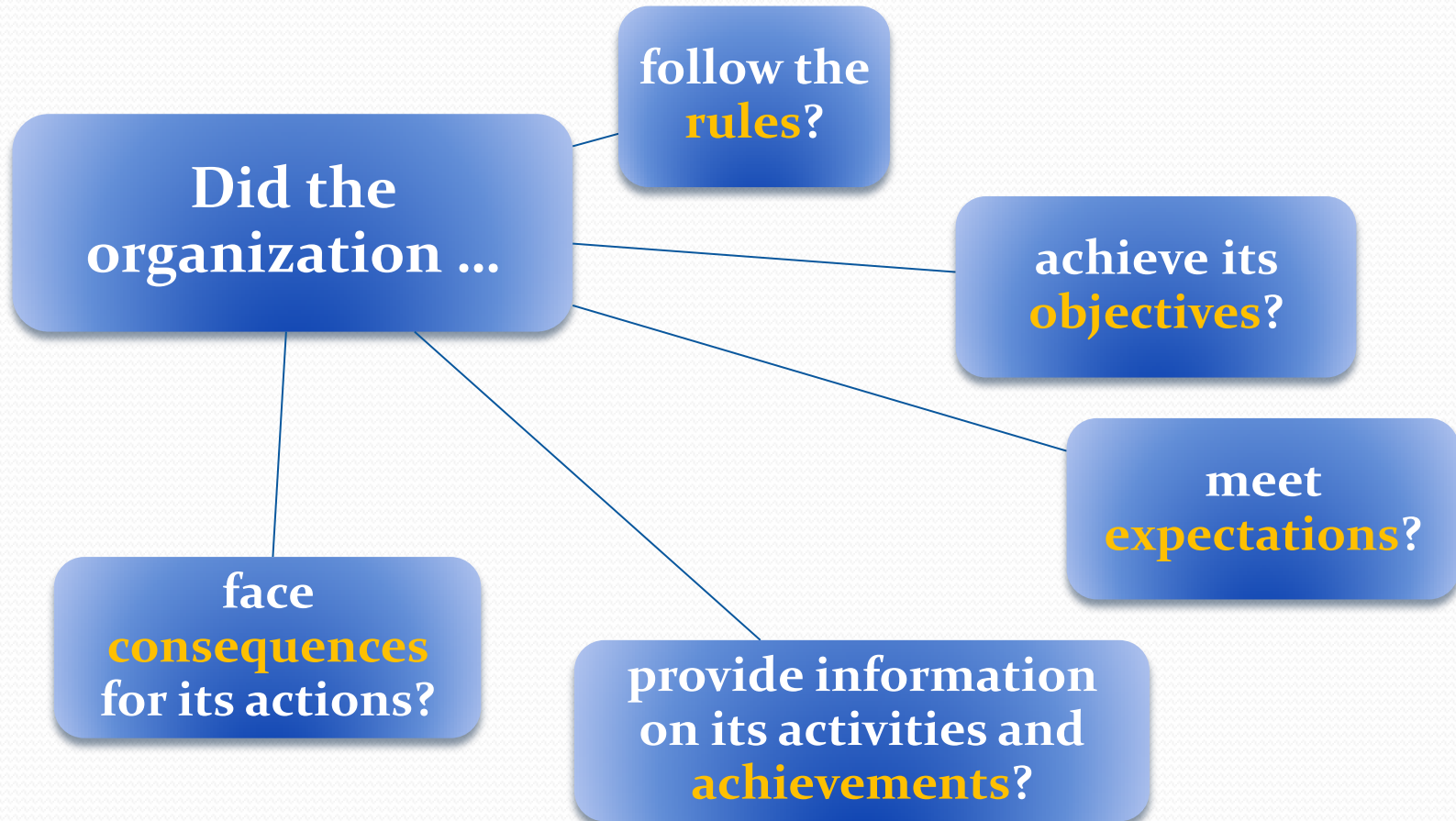
2014 PIC conference

- http://ec.europa.eu/budget/pic/conference/index_en.cfm

The COSO model



Managerial Accountability – Important questions



Internal Control Framework elements - Control environment

- Integrity and Ethical Values
- Commitment to Competence
- Board and Audit Committee
- Management's Philosophy and Operating Style
- Organizational Structure
- Assignment of Authority and Responsibility
- Human Resource Policies and Practices

Risk management

- "The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood" ISPPIA(Glossary)
- Objectives must be defined before:
 - ✓ Risk identification
 - ✓ Action to manage the risks
- Identification of the risks
- Risk-map
- Assessment of the risks
- ✓ Significance/impact of the risk
- ✓ Likelihood of the risk

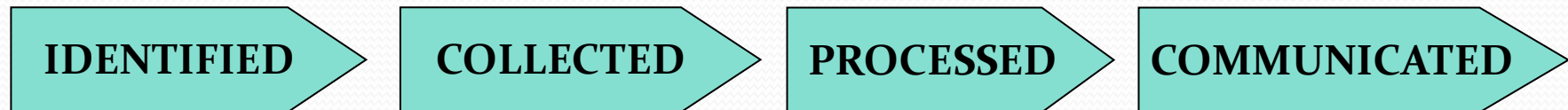
Control activities

- Risk response: Mitigate, Transfer, Tolerate, Avoid
- Control activities can be preventive and detective, and include approvals, reconciliations, reviewing reports, securing assets, segregating duties, and Information Technology controls. . . .



Information and communication

- Information should be



Line of communication



Timely and in appropriate form

Purpose: to support execution of the responsibilities

- Internal and external communication

Monitoring

- Monitoring is the assessment of internal control performance over time to determine whether internal control is adequately designed, properly executed, and effective.
- Ongoing supervisory activities
- Periodic evaluations
- Self-assessment
- Peer review
- Internal audit

Thank you!

