



Chapter 32 Financial Control: PIFC and External Audit

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Public Internal Financial Control

PIFC is made up of:

- Managerial Accountability arrangements based upon decentralised Financial Management and Control systems (FMC).
- Functionally independent Internal Audit (IA).
- Central Harmonisation Unit (CHU).

Managerial Accountability

- Entity managers are responsible for establishing an effective internal control environment in their organisation.
- A strong internal control structure is fundamental to the control of an organisation and its purpose, operations and resources.

Managerial Accountability – critical success factors

- An effective delegation framework of decision making powers to middle management.
- Clearly defined functions/responsibilities.
- Clear reporting and accountability lines.
- Top and middle management to have clear responsibility for delivering value for money.
- Transparent decision making processes in the public interest: openness to public scrutiny.

Financial Management and Control

The FMC system operates through internal control components including requirements for:

- Control environment
- Managerial risk analysis and risk management
- Control activities
- Information and communication
- Monitoring

(Source: COSO)

The scope of FMC

FMC aims to achieve organisational objectives in the following categories:

- Strategic High-level goals, aligned with and supporting its mission
- Operations Effective, efficient and economic use of its resources
- Reporting Reliability of reporting
- Compliance Compliance with applicable laws and regulations



The financial element of FMC

- The FMC system covers:
 - All kind of commitments (budget allocations/appropriations, contracts)
 - All tendering and contracting
 - All kind of income, disbursements, management of assets and liabilities
 - Recovery of unduly paid amounts
- All public money – No matter which source

Internal Audit - Role

- Functionally independent and objective assurance and consulting activity about the robustness of the FMC systems in terms of legality, regularity and economy, efficiency and effectiveness.
- Aims to add value, improve an organisation's operations and helps to accomplish organisational objectives.

Internal Audit: Independence

- IA function is established by the top manager.
- IA reports to the top manager, but it is functionally independent of all management activities and influence within the organisation.
- IA does not take any responsibility for design, implementation and running of FMC systems.
- IA has full autonomy in relation to drafting and implementing the audit plan.



Internal Audit: continuous professional development

- International and national certification schemes.
- Certification procedures to support a coherent and trusted public internal audit profession.
- Comprehensive and sustainable curriculum for internal auditor development is required.



Centralised Financial Inspection

- Centralised financial inspection can be essential to the successful implementation of PIFC, although not included in the PIFC concept
- Where existing, centralised financial inspection is to be clearly separated from the internal audit function.
- Centralised financial inspection refers to:
 - Fight against fraud and corruption only.
 - Operations performed on an ex-post basis only.
 - Specialised investigations, acting on complaints or request only.



Role of the Central Harmonisation Unit

Coordination and harmonisation of FMC and IA:

- Development and implementation of strategy and legal framework
- Development of methodologies and guidelines
- Networking and promoting best practice
- Overseeing systems development
- (Annual) assessment and reporting



PIFC related frameworks, standards and guidelines

- COSO/COSO II ERM
 - <http://www.coso.org>
- Internal Control (INTOSAI)
 - <http://www.intosai.org/issai-executive-summaries/intosai-guidance-for-good-governance-intosai-gov.html>
- Internal Audit (International Professional Practices Framework - IPPF)
 - www.theiia.org
- “Welcome to the World of PIFC” by DG Budget
 - http://ec.europa.eu/budget/library/documents/overviews_others/brochure_pifc_en.pdf

Part 2

External Audit

External Audit

- A Supreme Audit Institution (SAI) that audits government activities and reports to the Parliament.
- Full INTOSAI compliance, including
 - Constitutional anchorage,
 - Independence: functional, institutional and financial,
 - Full audit coverage: financial and performance audit.

External Audit standards

- International Organisation of Supreme Audit Institutions (INTOSAI) standards
 - <http://www.issai.org/>
- Lima declaration
 - [http://www.issai.org/media\(622,1033\)/ISSAI_1_E.pdf](http://www.issai.org/media(622,1033)/ISSAI_1_E.pdf)
- Mexico declaration
 - [http://www.issai.org/media\(626,1033\)/ISSAI_10_E.pdf](http://www.issai.org/media(626,1033)/ISSAI_10_E.pdf)

Part 3

The bilateral session

For the bilateral session - PIFC

- Final versions of adopted PIFC Strategy documents, the PIFC law and any by-laws and Rulebooks.
- State of play regarding the practical operation of FMC, with particular reference to:
 - Managerial accountability structures,
 - The need for, and linkage to, Treasury and Budget reforms and operations,
 - Internal Audit set-up
 - FMC and IA training (and certification),
 - Any proposed operation of centralised financial inspection.



For the bilateral session- EA

- Final versions of Development Strategy Documents.
- Final versions of current legal framework and any plans for revision.
- State of play - current functioning in relation to INTOSAI standards.