



Development and monitoring of PIFC

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Why PIFC?

- Is an integral part of good governance
- It structures Public Administration Reform
- Is based on internationally accepted control and audit standards
- Has a track record of success
- Is part of the accession requirements

PIFC elements

- Internal control (managerial accountability, (financial) management and control systems)
- Internal audit as part of internal control, but functionally independent of management
- Central harmonization to ensure equal treatment of citizens and same high quality of control/audit services

Components of PIFC

- Managerial accountability, reflected in adequate Financial Management and Control (FMC) systems;
- decentralized, functionally independent internal audit (IA);
- Harmonization and co-ordination of both FMC and IA in the entire public sector (CHU).

Four development stages: conceptualization, legislation, administrative reform, training

DG Budget's Coaching Policy

- DG Budget looks at the implementation of the various components of PIFC over time
- But DG Budget also verifies whether:
 - there is an up-to-date policy paper and action plan
 - the legislative environment is appropriate
 - organisational structures are adapted

DG Budget's looking at PIFC: Is the Manager responsible for:

- Setting and achieving the organization's objectives, thus spending wisely;
- Organizing his/her financial management and control systems;
- Developing objective risk analysis and management to reduce important risks in his/her services;
- Adopting adequate FMC handbooks with detailed work flows to be used by the financial officers and the internal auditor;
- Establishing an internal audit unit, protecting its functional independence and following-up on material audit recommendations;
- Reporting on and being accountable for the organization's activities.

DG Budget's looking at PIFC:

Is the Internal Auditor responsible for:

- Assessing the functioning of the FMC systems and making recommendations;
- Advising top management to (better) achieve objectives, but taking no managerial responsibility through:
 - Having functional but not total independence – IA Charter;
 - Showing highest degree of objectivity, integrity and professionalism (Code of Ethics);

DG Budget's looking at PIFC: The Internal Auditor:

- Is certified as an experienced audit professional;
- Enjoys the protection of the Internal Audit Law and IA Charter;
- Is nominated, transferred and dismissed only after consultation/agreement from the CHU (at least the Head of the Audit Unit);
- Has adequate resources and salary;
- Reports to the highest management level;
- Is free to express himself.

DG Budget's looking at PIFC: The CHU (FMC + IA):

- Is involved in conceptualization/law drafting, later in harmonizing and co-ordinating standards and guidelines;
- Motivates and promotes best control and audit practices;
- Organizes networking (internal/external) and public relations;
- Determines training needs for stakeholders;
- Assesses the follow-up of its guidelines and standards to clients;
- Prepares an annual PIFC progress report to the Government;
- Co-operates with the SAI.

DG Budget's looking at PIFC:

Is adequate training policy set up by CHU:

meaning whether there is sustainable training for managers, financial officers and internal auditors:

1. Governance and managers (make them aware of the added value to the organization of good FMC systems and of internal audit);
2. FMC financial officers for better understanding the meaning of sound financial management
3. Internal auditors: comprehensive curriculum (good practices, applied auditing (financial, system-based audits and only later performance audit), interpersonal skills, risk management, accounting and financing, IT); proper certification procedures.

What did DG Budget learn from its PIFC experience?

- Public sector internal audit can only be developed in a wider framework of Internal Control;
- High level support for and ownership of PIFC;
- Long term strategy needs long term commitment and appropriate steps (PIFC Policy Paper and Action Plan)
- Need for platform to discuss PIFC elements at national scale (CHU);
- Benchmarking procedures for measuring progress over time;
- SAls play major role

PIFC concept assessed

Positive statements:

- Internal control has become a strategic issue in the wave of accessions
- Irreversible and efficient movement for the modernization of public administration
- Creation of a forum for exchange of ideas and methods in budgetary control
- Innovative ideas for policy making and central harmonization
- Awareness raising of accountability and transparency

PIFC concept assessed

What are the most relevant criticisms?

- More explicit links with control environment
- PIFC is too legalistic and too detailed
- More time and additional resources
- More flexibility through risk assessment in the design of adequate and cost-effective control systems

PIFC concept assessed

One criticism in particular:

“The EU underrated the need for robust antifraud/corruption systems and inspection should be in the PIFC equation (PIFC = FMC + IA + CHU)”

Declaration of Assurance

A Declaration of Assurance in the public sector

- Is a annual statement on the adequacy of the systems of checks and balances in government (double lock to sound financial management)
- Is signed by management and countersigned by his Director FMC systems (controller) and his Internal Auditor;
- Is results-based not commitments-based;
- Relates to reasonable, not to absolute assurance

Declaration of Assurance

A Declaration of Assurance provides a statement on

- The integrity of financial information
- The efficiency and effectiveness of the resources used and
- The adequacy of applied internal control systems

Declaration of Assurance

In a Declaration of Assurance the reputation of the manager is at stake:

- Manager aims to get appreciation for the existence of good preventive controls
- Manager understands better the role of internal control and internal audit
- Manager understands the need for independence of internal audit

Declaration of Assurance

Declaration of assurance – Example

I, the undersigned, Mr José Manuel Silva Rodríguez

Director-General of DG Research in my capacity as authorizing officer by delegation

*Declare that the information contained in this report **gives a true and fair view (*)**.*

*State that I have **reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the **legality and regularity of the underlying transactions**.***

*This reasonable assurance is based on **my own judgment and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.***

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

*However the following **reservations should be noted**:*

1. Reservation concerning errors relating to the accuracy of the cost claims and their conformity with the provisions of the Fifth Research Framework Program (FP5).

2. Reservation concerning the absence of sufficient evidence to determine the residual level of persisting errors with regard to the accuracy of cost claims in Framework Program 6 (FP6) contracts.

Brussels, 2 April 2007

« Signed »

José Manuel Silva Rodríguez

(*) True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

→ reinforce accountability and provide an incentive for managers of Community funds to assess and improve their underlying control systems

Declaration of Assurance

Keep in mind:

- Political level often forgets the good principles when it comes to practice
- Adequate information stands in the way of political aspirations and agendas

Declaration of Assurance

AND

- System failures will always happen:
- There is not such a thing as absolute independence of the control, audit, information function (always plays second fiddle after management/politics)
- Reform programs are good as a next step in the right direction, but never a permanent fix
- In some new EU member states we see these dangers clearly: new governments with old habits, that show again ignorance of the new control concepts
- Management that show sheer negligence of IC and IA causing weakening of CHUs, of the functional independence of internal audit or even of the need to certify auditors as a criterion for nomination.
- However, coherent public internal audit function can be strong force too.....

My message to you

- You serve the public
 - High levels of integrity and performance
 - Self-assertiveness and self-confidence
 - Don't be pushed into isolation
 - You are part of a professional body
 - You are part of a national public profession
 - Your coherence as a profession is relevant, because *“a coherent public internal audit function can be a strong force too.....”*
 - Be part of and help develop the EU public audit community
- Restructuring internal control environment needs active and ongoing involvement of all stakeholders



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