



# Chapter 32 - Financial Control:

## Public Internal Financial Control

**Explanatory meeting:  
5 December 2018**

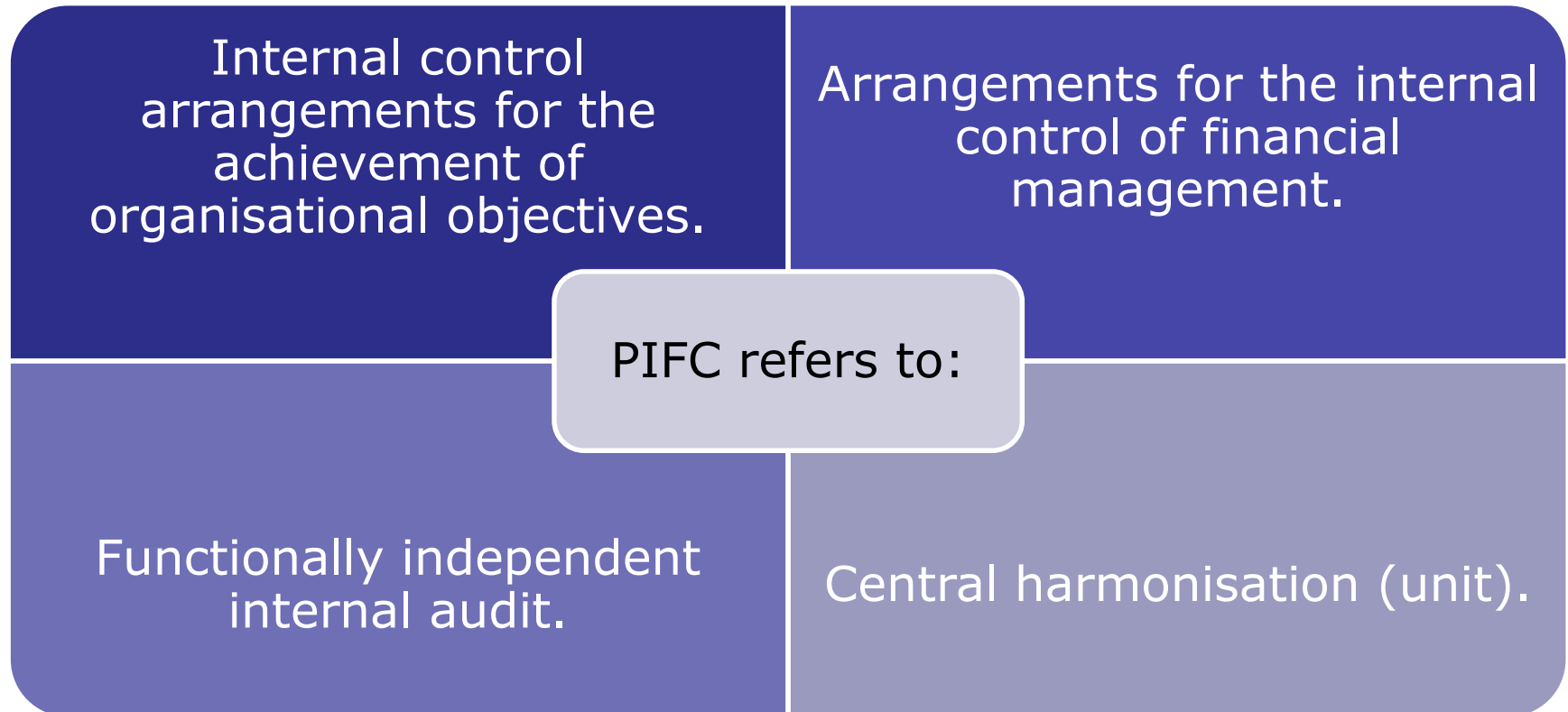
**European Commission  
DG Budget**

*'These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose. Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union'*

# Content

- Introducing PIFC
- Strategic Framework for PIFC
- Managerial Accountability
- Internal Control Components
- Internal Control of Financial Management
- Internal Audit
- Central Harmonisation

# Public Internal Financial Control



# Purpose of PIFC

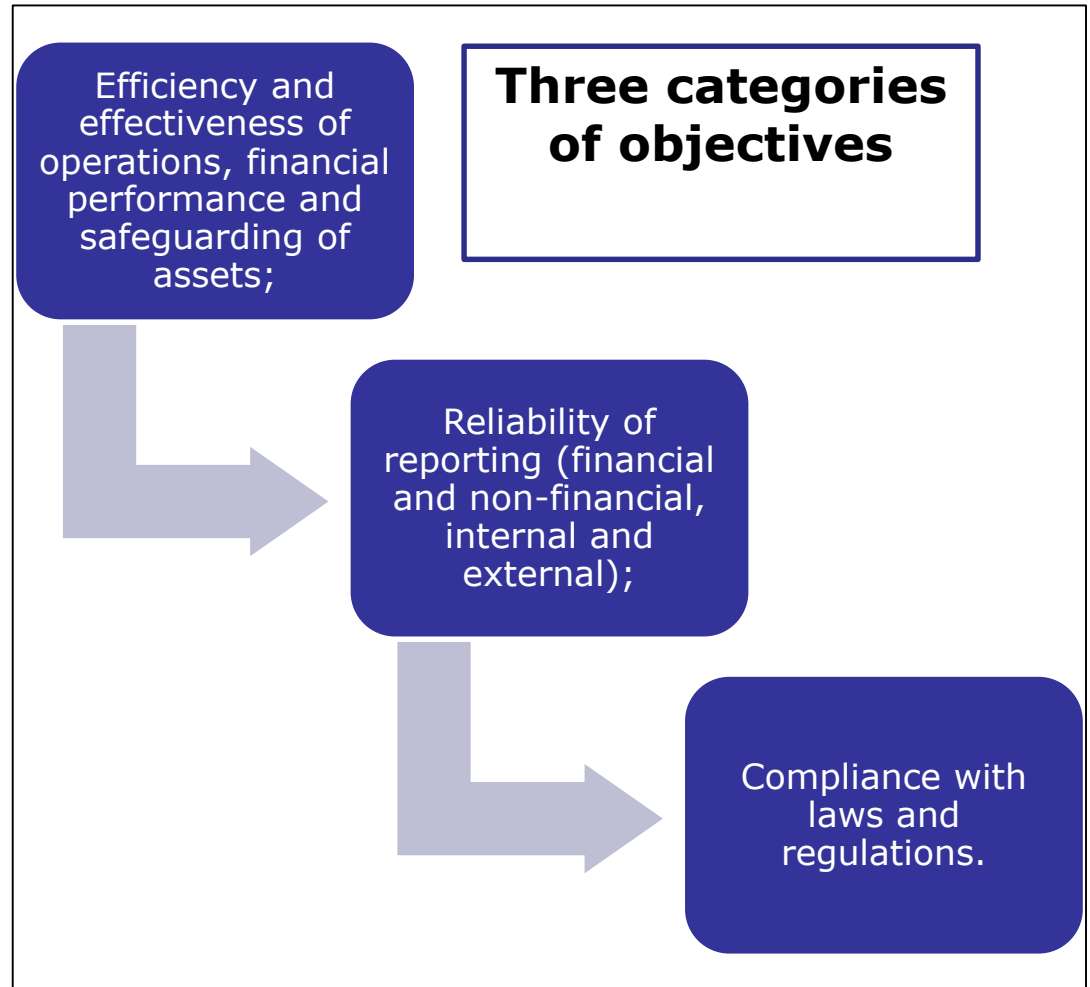
- To help public sector managers run their organisations better by staying focused on:
  - the pursuit of objectives, and
  - financial performance goals.
- To provide assurance about the proper functioning of the organisation.

# Basis for PIFC

- No acquis that requires transposition into national legislation.
- A candidate country is expected to adopt and implement internal control and internal audit arrangements, throughout its public sector, in line with EU good practice and internationally recognised frameworks and standards.

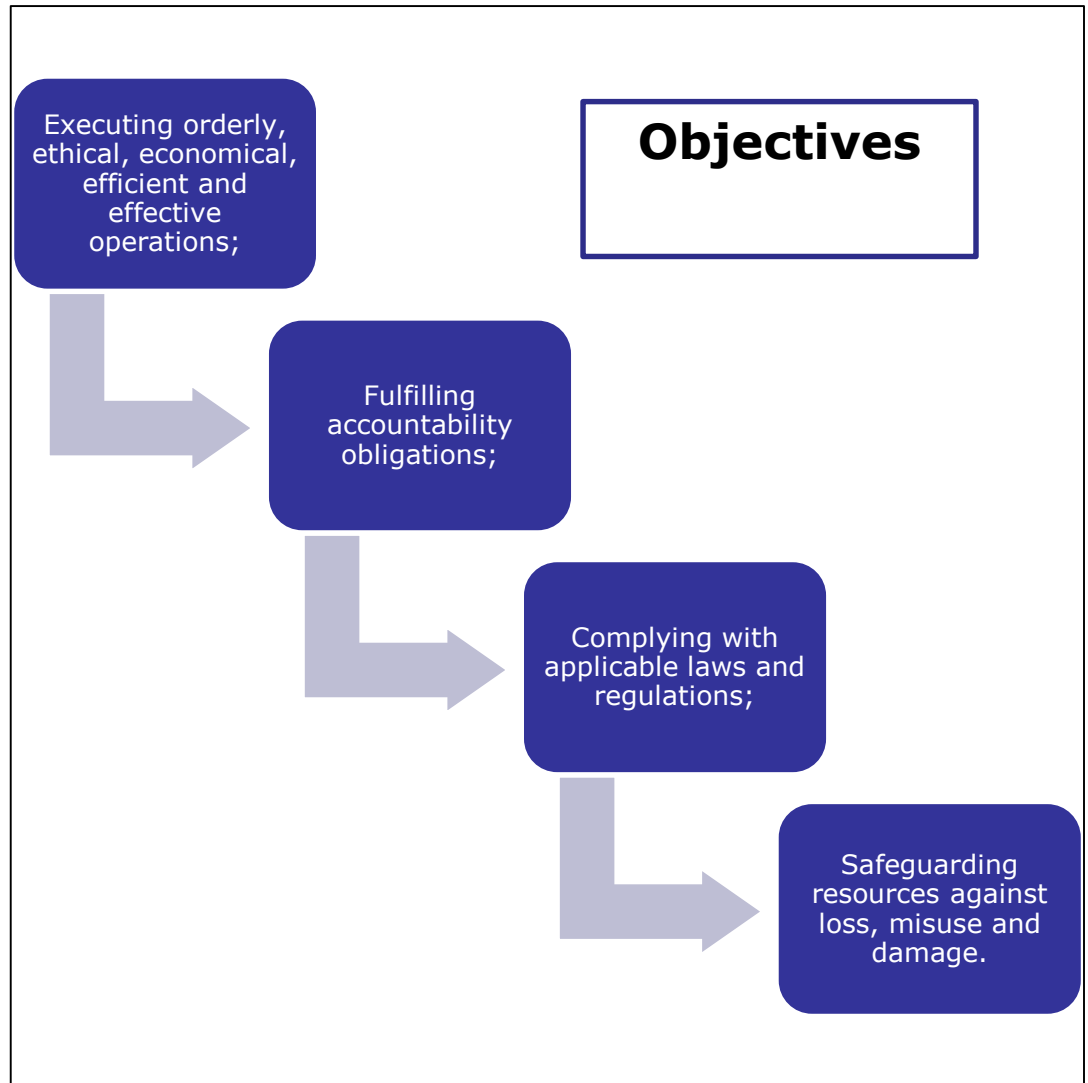
# Internal Control / COSO

*A process, effected by an entity's management and personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.*



# Internal Control / INTOSAI

*An integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:*



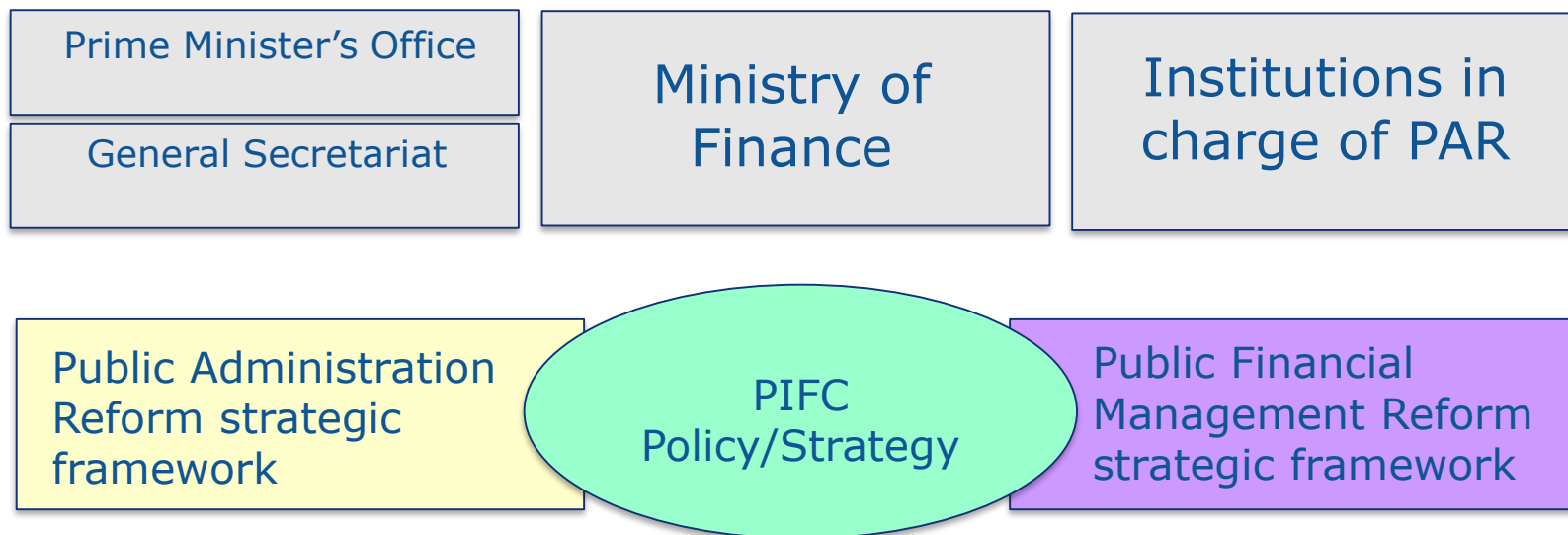
## Pre-conditions for the implementation of PIFC

- Understanding, acceptance and application of the principle of managerial accountability.
  - Managers at top and middle management level are held **accountable** for results by assigning them **responsibility**; accompanied by delegated **authority** for decision-making; and the **autonomy** and resources necessary to achieve those expected results.
- Policy planning arrangements are in place that link public sector activities to government strategic priorities and financial resources.



# Relationship between PIFC and PAR/PFM Reforms

**Institutions in charge of strategic framework development, monitoring and quality control:**



**Implementing Institutions:**



# Implementation of PIFC and PAR/PFM reforms

Institution (budget user)

## PAR requirements:

- Sectoral strategic planning (link to government strategic priorities/financial resources)
- Monitoring/reporting on government/institution objectives
- Accountability parent institution/agency
- Delegation of decision-making authority
- HRM (recruitments, dismissals, salaries, promotions)

## PIFC requirements:

- Operational planning (resources match priorities)
- Risk management
- Control activities
- IC of financial management
- Communication on performance
- Monitoring and reporting
- Internal audit

## PFM requirements:

- Budget formulation
- Budget execution
- Public procurement
- Financial reporting

# PIFC in practice

- Operational planning linking objectives to resource requirements, with a managerial and accountability structure to deliver those objectives.
- Risk management.
- A system of controls to mitigate risks and prevent losses from misuse/damage to assets and resources.
- Adequate system of internal control of financial management.
- Communication leading to accurate, relevant and timely internal and external information about the organisation's financial and operational performance.
- A monitoring and reporting process.
- Functionally independent internal audit.

# Operational planning

- Long-term and operational objectives/deliverables, aligned with resources.
- Objectives are accompanied by indicators to measure progress against the set targets.
  - Indicators enable managers to plan, follow up and report on their activities.

# Managerial and accountability structures

- Entity managers are responsible for establishing an (effective) internal control environment in their organisation.
  - and to have clear responsibility for delivering value for money.
- Management to establish structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives.
- Transparent decision making processes in the public interest.

# Risk Management

- The organisation:
  - specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives;
  - identifies risks to the achievement of objectives and analyses with a view to determining how they should be managed;
  - considers the potential for fraud in assessing risks;
  - identifies and assesses changes that could significantly impact the system of internal control.

# Internal Control activities

- Control activities that contribute to the mitigation of risks to the achievement of objectives.
- Control activities are deployed:
  - through policies that establish what is expected; and
  - through procedures that put policies into action.
- Consideration to be given to cost of control activities.

# Internal Control of Financial Management

- All public money – no matter which source.
  - 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.



# Internal Control of Financial Management

- Treasury system that properly monitors commitments, expenditure and cash flows.
- Interoperability, security and data integrity of financial-related IT systems.
- Proper functioning of financial circuits.
- Clearly defined scope of competence of the 'financial affairs unit'.
- Adequate management and reporting of irregularities.

# Internal Control of Financial Management

- Segregation of tasks.
- Avoidance of conflict of interests.
- Adequate audit trails.
- Procedures for monitoring effectiveness and efficiency.
- Procedures for follow up of identified weaknesses in the financial management system.

# Information and Communication

- The organisation:
  - obtains/generates and uses relevant, quality information to support the functioning of internal control;
  - internally communicates information (including objectives and responsibilities for internal control) necessary to support the functioning of internal control;
  - communicates with external parties regarding matters affecting the functioning of internal control.

# Monitoring

- The organisation:
  - selects develops and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning;
  - evaluates and communicates internal control deficiencies in a timely manner to those responsible for taking corrective action.

# Internal Audit - Role

- Functionally independent and objective **assurance** and **consulting** activity about the robustness of the internal control systems in place.
- 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 internal control systems.
- IA has full autonomy in relation to drafting and implementing its audit plan.

## **Internal Audit – certification and training**

- Establishment of a national certification scheme to support a coherent and trusted public internal audit profession.
- Comprehensive and sustainable curriculum for continuous professional development is required.

# Centralised Financial Inspection

- 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;
  - Operations performed on an ex-post basis only;
  - Specialised investigations, acting on complaints or request only.



# Central Harmonisation (Unit)

Coordination  
and  
harmonisation  
of internal  
control and  
internal audit.

- development and implementation of strategy, legal framework, and methodologies
- networking and promoting best practice
- quality review and overseeing systems development
- (annual) assessment and reporting

# PIFC – Expectations for a country

- National strategic vision for the functioning of PIFC.
- Coherent legal framework on PIFC.
- (Implementation of) PIFC legislation and underlying policies.
  - Legal and policy framework to be in line with national PAR and PFM requirements.
- Appropriate administrative capacity throughout public administration.

# PIFC related frameworks, standards and guidelines

- COSO
  - <http://www.coso.org>
- Guidelines for Internal Control Standards for the Public Sector (INTOSAI GOV 9100)
  - <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](http://www.theiia.org)