International comparison of public finance management and control systems in the Czech Republic, Italy, Germany and France

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in order of appearance

MASARYK
UNIVERSITY

Iceland
Liechtenstein
Norway grants

Ministry of Finance
of the Czech Republic

**PRKVF Project
Strengthening Public
Financial Management
and Control**

**Comparative Analysis
of Germany, France and Italy
and recommendations
for the Czech Republic**

**MASARYKOVA
UNIVERZITA**

Brno 2022

Iceland
Liechtenstein
Norway grants

Ministry of Finance
of the Czech Republic

"Strengthening public financial management and control"
EEA and Norway grants 2014-2021
Programme "Good Governance, Programme Areas 16 - Good Governance, Accountable Institutions"

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Aims

Learning from other EU countries

The specific aim of this study is threefold

1 Assessing the status of internal control and audit in the Czech Republic pubilc sector, identifying the weaknesses

2 Comparatively analyzing Germany, France, and Italy public sector cases, hightlighting good practices

3 Providing recommendations for improving the Czech internal control and audit system in the public sector
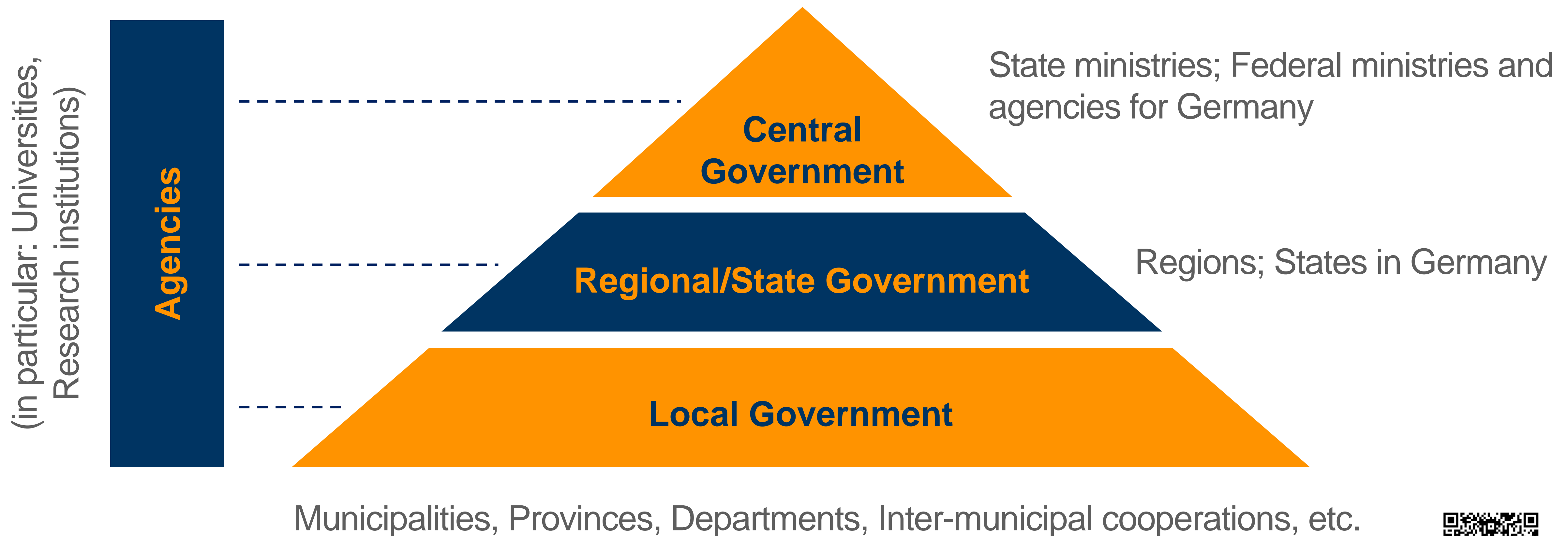
Method of analysis

1. Selection criteria for the three foreign countries

- Good level of comparability with Czech Republic (principle of legality as dominant value)

- Biggest economies within EU

- Long lasting history of democratic institutions
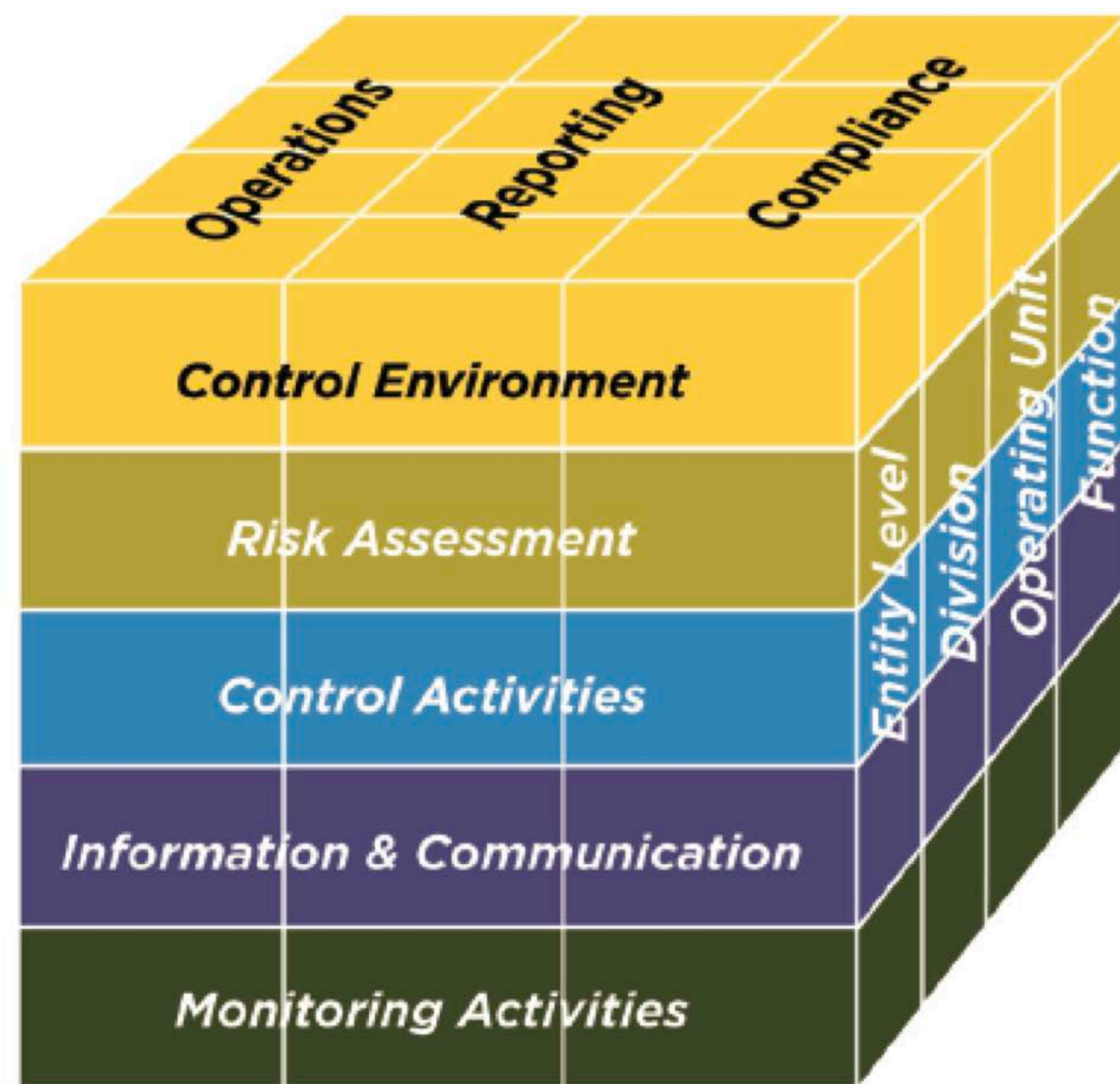
- Similar public sector structure

Method of analysis

2. Units of analysis

(in particular: Universities, Research institutions)

Agencies

Central Government

Regional/State Government

Local Government

State ministries; Federal ministries and agencies for Germany

Regions; States in Germany

Municipalities, Provinces, Departments, Inter-municipal cooperations, etc.
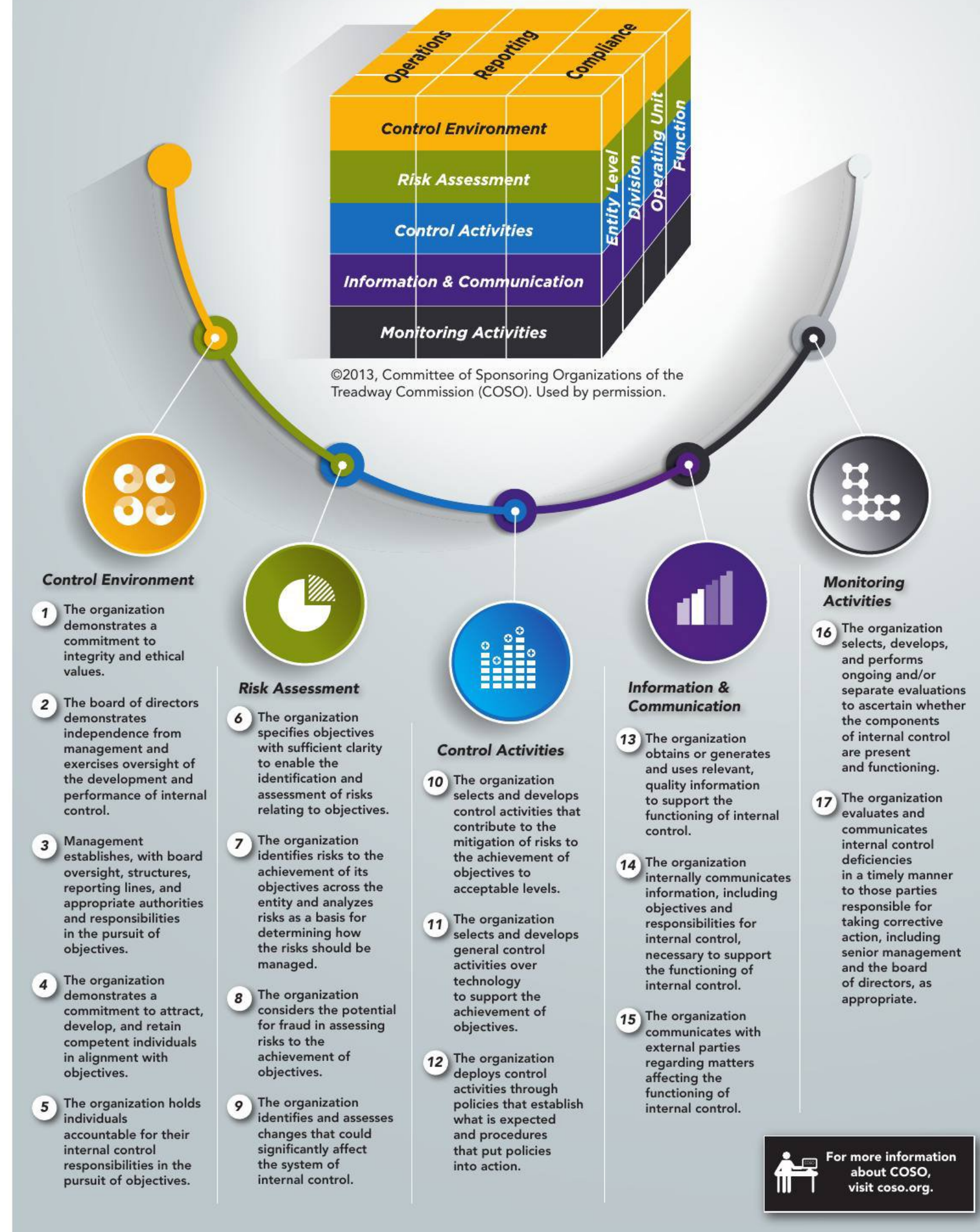
Method of analysis

3. COSO as inspiring framework

Source: Chapter 2 of 2013 COSO *Internal Control: Integrated Framework.*

COSO Internal Control — Integrated Framework Principles

Method of analysis

4. Modified COSO components as structure of analysis

- Public spending chain
- External control chain
- Internal control chain

- Actors (roles & responsib.)
- Framework (guidelines)
- Methods
- Impact (feedback)

1. Control Environment	**2. Risk Assessment**
3. Control Activities	**4. Internal Audit**

- Subject (types of risks)
- Actors (roles & responsib.)
- Framework (guidelines)
- Methods
- Impact (outcomes)

- Actors
- Framework & Methods
- Impact

Method of analysis

5. Basis of analysis

- Available literature

- Official documents

- Consultations of experts and top public officials

Method of analysis

6. Good practices

Good practices have been highligthted in special boxes, for each country

Each good practice is linked to each COSO (original) principle

We included good practices developed within single organizations as they represent interesting cases from which important hints arise

From the good practices, we derived recommendations (section 7)

General recommendations

Overview of the main findings

1 General principles for all, specific rules for each level of government

2 Linking financial and nonfinancial performances

3 Skilled and trained employees

4 Law as instrument for change, not change by itself

5 Focus on modal level of implementation of IC/IA

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Method & General recommendations

Control Environment

Risk Assessment

Control Activities

Internal Audit

Closing Remarks

Control environment

Standards, processes, structures providing the basis for internal control

1   Set minimum requirements, including skills, for staffing internal control

2   Clear definition of responsibilities within laws, regulations and recommendations

3   The internal control legal framework must be pragmatic and simple

4   Fostering hub & spoke schemes to propagate internal control culture

5   Linkage of internal control with an effective strategic control process

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Staff requirements and responsibilities

Specific recommendations for CZ from the experience in DE, FR, and IT

To tackle the lack of skilled personnel, the insufficient knowledge of internal controls, the poor appreciation for responsibility and liability, and the lack of assessment:

- Specific legal provision requiring internal control bodies
  - ▸▸ it does not ensure quality, but at least staffing

- Some regulations for the background of such personnel, setting required minimum skill set and functional incompatibilities

- Needed recommendations on how each actor is to be held responsible for spending and performance, that is not only adhering to formal rules but also for effectiveness and efficiency (value-for-money)

Pragmatism and simplicity

A legal framework easy to decode and embrace

Given the need to promote a performance orientation with a value-for-money assessment, the legal framework for internal control should be:

- Rooted in state-of-the-art managerial practices applied to the public sector
  - ▶▶ to counter the insufficient knowledge of the 3Es concept
  - ▶▶ to overcome the formality of the code of conduct

- Be pragmatic
  - ▶▶ to conquer even the most conservatives

- Be understandable by all and anchored to few clear issues with indicators valid across government levels
  - ▶▶ it is easier to appreciate and implement
  - ▶▶ it is more transparent and may capture public attention more easily
  - ▶▶ politicians may be more sensitive and more keen to its real functioning (IT1)

Hub & spoke

A structure to help disseminate an internal control culture

To overcome the lack of experienced personnel as well as the difficulties related to promote training especially in peripheral or secondary organizations, internal controls should be organized with:

- A central coordination office for internal control at each level of government
  - ▶▶ staffed with leading experts and experienced public servants
  - ▶▶ to act as a point of reference, knowledge centre, etc. to guarantee legitimacy, validity and appropriateness across public administration (IT2)
  - ▶▶ to organize specific training programmes involving the spokes whether directly or indirectly

- Peripheral offices across ministries, regional departments, municipalities, local agencies, etc.
  - ▶▶ reporting to the central coordination office for their internal control function (IT18)
  - ▶▶ to ensure internal control functions are present at all levels even of large organizations
  - ▶▶ to warrant that internal control is relevant and specific to each different entity
  - ▶▶ to help propagate an internal control culture across public administration

Strategic control process

Linking internal controls to planning and monitoring

To ensure that the control process is effective, a clear strategic process should be put in place with laws and regulations requiring:

- Useful steps and timings to allow internal controls to be meaningful with respect to the strategic process
    - ▸▸ plans should be approved before the period to which they refer begins to be relevant for its activities
    - ▸▸ reports should be produced and verified soon after such period ends to allow corrective actions to be taken promptly (IT4, IT7)

- Results to be assessed against planned objectives
    - ▸▸ to promote a performance orientation culture not only at strategic but also at operational level
    - ▸▸ to assess managers and held them accountable vis à vis their (contribution to) achievement of planned objectives (IT3)

- Clear, measurable, challenging objectives to be assessed by outcome and not only output indicators
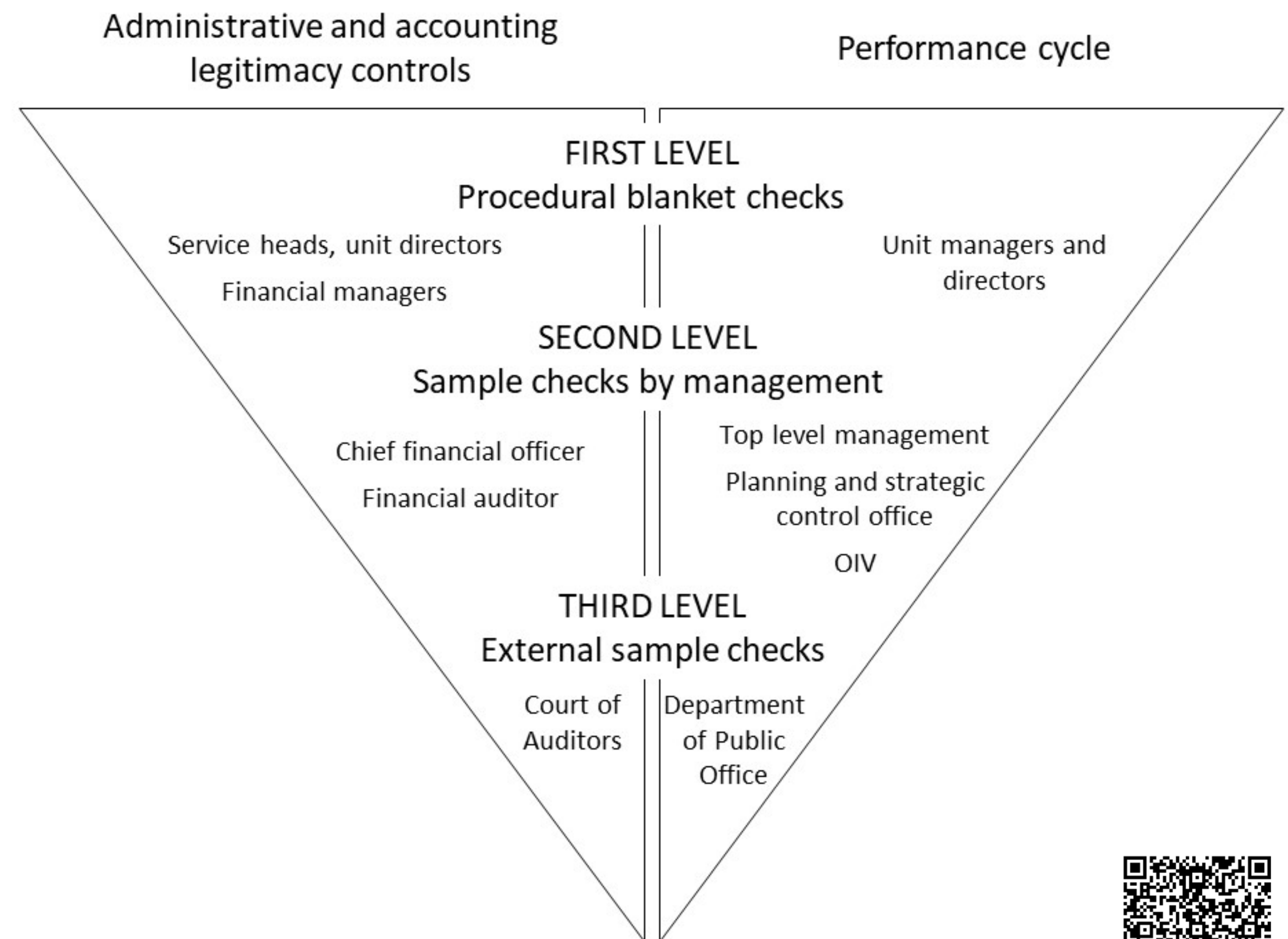   … but this is a story which concerns more Control Activities

Insight from Italy

Internal control conceived as two separate pillars

From 1999 (2009) internal control moves beyond compliance for the public spending chain to include:

- Compliance checks
  - ⯈ administrative and accounting regularity

and

- The performance management cycle
  - ⯈ management controls
  - ⯈ individual and organisational evaluation
  - ⯈ strategic control

Administrative and accounting legitimacy controls | Performance cycle

FIRST LEVEL
Procedural blanket checks

Service heads, unit directors
Financial managers

Unit managers and directors

SECOND LEVEL
Sample checks by management

Chief financial officer
Financial auditor

Top level management
Planning and strategic control office
OIV

THIRD LEVEL
External sample checks

Court of Auditors | Department of Public Office

Method & General recommendations

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Risk assessment

Aims and focus of country analysis

Enhance understanding how (public) organizations across countries and levels detect risks, assess their relevance, forecast the likelihood of them occurring, and decide how and when to manage them.

- Subject: the types of risks identified and assessed

- Actors: roles and responsibilities of the actors included in the process of risk assessment

- Framework: description of rules or guidelines

- Methods: modalities of concrete risk assessment

- Impact: description of the concrete outcomes of risk detection and assessment, including the set of decisions that are made based on risk assessment

Risk assessment

Results & Recommendations from country analysis

1   A clear general framework should be provided in law/regulations or guidelines

2   Integration of risk assessment in other traditional risk-related processes

3   Simplified approaches to risk assessment methods should be preferred

Risk assessment

Results & Recommendations from country analysis

4   Hub & spoke model for risk assessment supported by ICT

5   Considers windows of opportunity to introduce risk assessment

6   Provide a multiannual perspective for risk assessment implementation

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Risk assessment

Insights from the federal level in Germany

Across all government levels, and in line with a strong legalistic Rechtsstaat tradition, aspects of (financial) internal control are laid down in laws and regulations that focus on budgeting, accounting, and auditing matters

The adoption of internal control systems at all three levels of government, although showing mandatory and harmonized elements, are characterized by a high degree of disparity. Diverse picture regarding the configuration of internal control across ministries and their federal agencies ("no uniform understanding of risk (management) across ministries", FAO 2017)
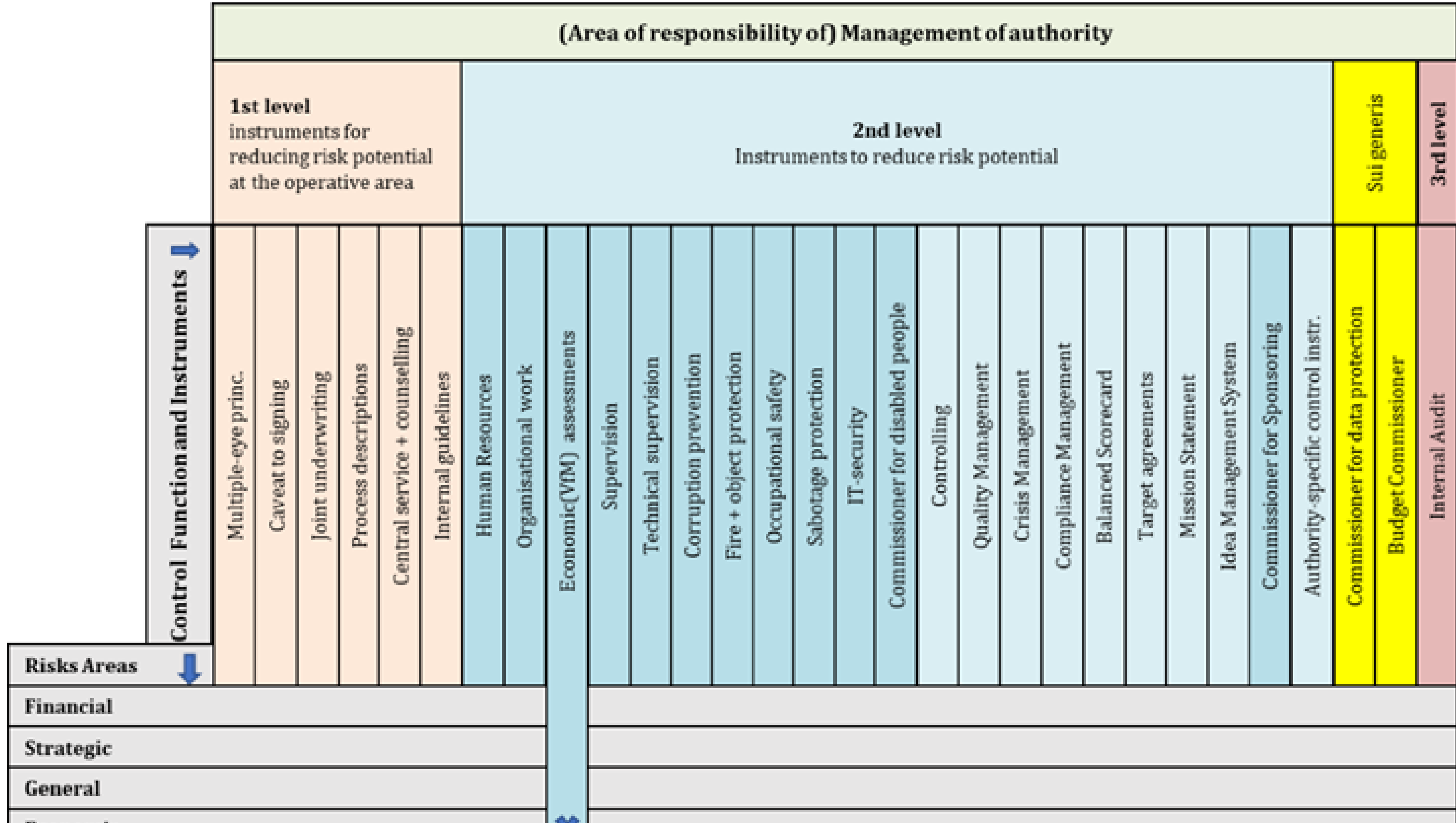
Therefore, the FAO advocated a uniform risk management standard (based on the "Three lines of Defense Model") for federal authorities, intending to promote and facilitate the conscious use of the instrument

The FAO has adapted the model (next slide) to include specific features of the German federal administration to make it more comprehensible and manageable for the latter

Main part of the proposed model comprises a systematic approach to how authorities can identify their risks and assign them to their control and management instruments and functions

Risk assessment

	(Area of responsibility of) Management of authority			
	1st level — instruments for reducing risk potential at the operative area	2nd level — Instruments to reduce risk potential	Sui generis	3rd level

Control Function and Instruments

1st level: Multiple-eye princ. · Caveat to signing · Joint underwriting · Process descriptions · Central service + counselling · Internal guidelines

2nd level: Human Resources · Organisational work · Economic(VfM) assessment · Supervision · Technical supervision · Corruption prevention · Fire + object protection · Occupational safety · Sabotage protection · IT-security · Commissioner for disabled people · Controlling · Quality Management · Crisis Management · Compliance Management · Balanced Scorecard · Target agreements · Mission Statement · Idea Management System · Commissioner for Sponsoring · Authority-specific control instr.

Sui generis: Commissioner for data protection · Budget Commissioner

3rd level: Internal Audit

Risks Areas

- Financial
- Strategic
- General

Risk assessment

Good practice insights from Germany - the case of the federal employment agency (BA)

BA, the largest federal authority with over 100,000 employees, took a pioneering position in the German public sector

Since 2004, BA has operated in risk management based on the following definition: "A risk is a danger that events or actions will prevent the Federal Employment Agency and its departments from achieving their goals or successfully implementing their strategies."

Number of further developments due to weaknesses in the first phase (e.g. high frequency, too detailed, low relevance, opaque assessments). Important steps:

- 2009 Introduction of Risk Management Software

- 2012 Risk management process was again scrutinized and simplified and since then has been oriented towards COSO principles

- 2019 Binding framework for the implementation of an operational risk management system was introduced by means of a directive.

Risk assessment

Good practice insights from Germany - the case of the federal employment agency (BA)

Risk management is now anchored throughout the Federal Employment Agency in a continuous, transparent process.

A practicable model for the organization has been established. Risk management process, repeated twice a year and with a manageable number of risks. Position to counter significant business policy risks for the organization that require appropriate management attention. (DE 19, COSO 6, 7 & 9)

Vertical integration via technical solution. The identification of risks was extended to the entire regional network with the integration of all ten regional directorates via a risk management software. (DE 20, COSO 7)

Continuous improvement along all dimensions, including control environment, risk assessment, control activities and internal auditing based on COSO principles. (DE 21, COSO 9)

Method & General recommendations

Control Environment

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Recommandation on Control activities

Three main recomandations

1   Do not provide a one-size-fits-all structure of information system and control activities, just principles and criteria

2   Fostering internal charters and guidelines to help awareness and consistency

3   Supporting workshops to deploy control activities

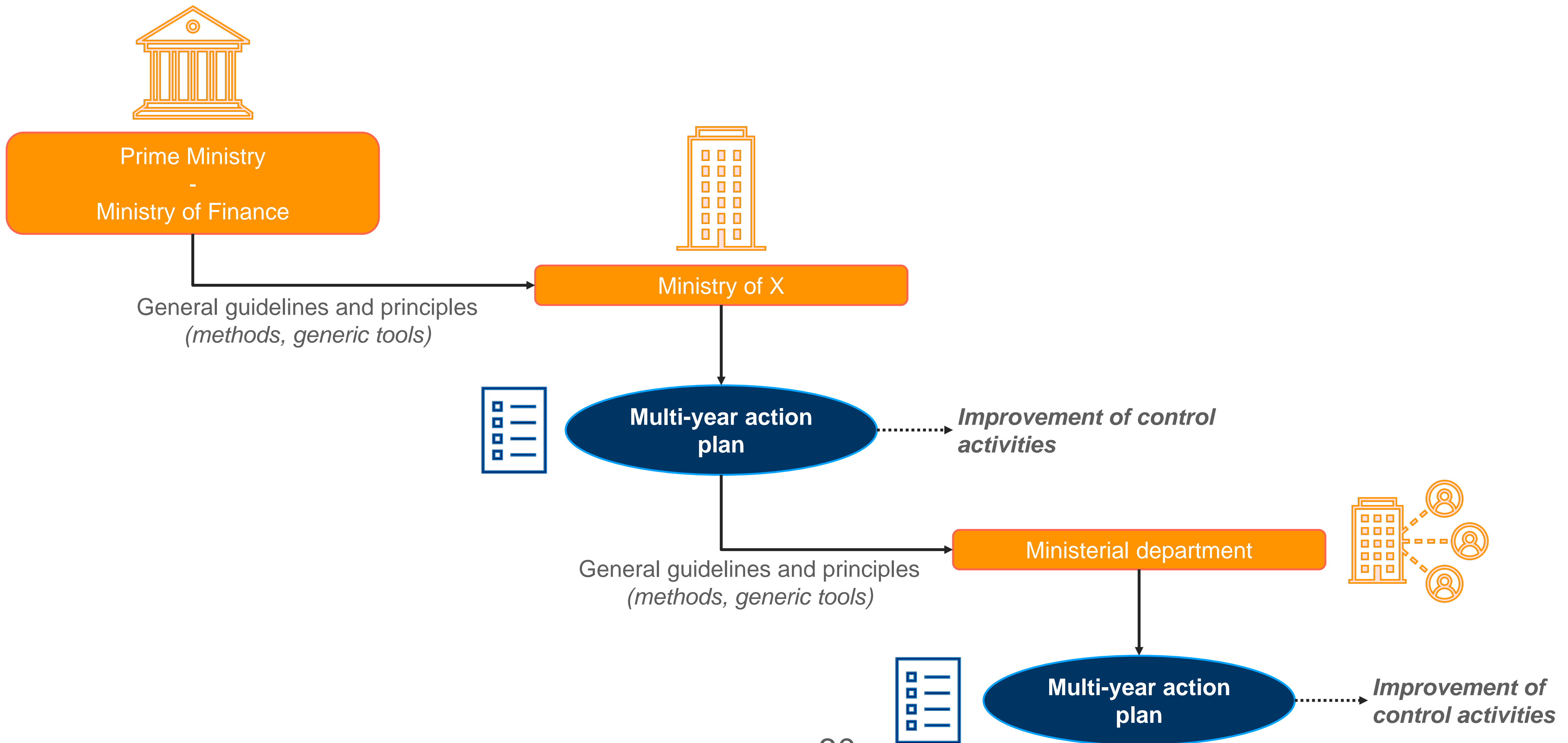# Define the principles and criteria for control activities

Do not provide a one fits all system

1 Every organisation is different and has its own needs in terms of control activities

2 It is important to build control activities system adapated to the specificities of each organisation

3 Define general guidelines and principles for control activities

Good Practice from France (FR3)

Multi-year action plan made by each ministry

Prime Ministry
-
Ministry of Finance

General guidelines and principles
(methods, generic tools)

Ministry of X

Multi-year action plan

Improvement of control activities

General guidelines and principles
(methods, generic tools)

Ministerial department

Multi-year action plan

Improvement of control activities

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Fostering internal charter and guidelines

Help awareness and consistency

1 Internal charters and guidelines should be communicated within the organisation

2 Internal charters and guideline should be updated and adapated frequently

3 Inernal charters can play a role in continuous improvement and consistency of control activities

Supporting workshops to deploy control activities

Working on management culture

1 Organise workshops to help public managers to develop control activities

2 Bring to public managers a technical support

3 Change the mindset *(culture)* before to change the tools

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France

Regional government: Internal audit (IA) focused on dysfunctional internal processes

The internal audit (IA) departments responsible for building and updating the isk map. They must also ensure that control actions are implemented to control these risks.

These departments then conduct internal audits to ensure that the risks identified in the risk map are indeed under control and that the effectiveness of risk control actions is satisfactory. If this is the case, the auditor produces an audit report that provides reasonable assurance. In this report, the auditor may also make recommendations to improve the organization's risk control.

IAs within the various departments generally focus on internal processes that are dysfunctional (e.g.: signature delegation process; inventory process). The identification of these dysfunctions can be done through internal analyses or through external audits. The audit report is submitted to the President and makes recommendations to improve the reliability of the audited processes.

Germany

Central government: Delegation model for smaller entities

Small authorities have been given the option of having internal auditing performed by the Federal Office of Administration (BVA), as a service by way of delegation. The BVA is an authority situated within the Federal Ministry of the Interior. This is also known as the delegation model or more commonly as "external internal auditing".

This options is particularly interesting for small authorities in which an internal audit would be important from a risk perspective but cannot be justified in terms of human resources.

Germany

Regional government: Networking and Cooperation

More complex audits are generally carried out by the Internal Audit department of the Hessian Ministry of Finance, which has been in existence since 1970 together with other actors.

Experienced auditors from the construction and tax sectors as well as legal experts, are available for this purpose. These investigations are facilitated by the "networked model" introduced with the explicit support of the Hessian Audit office.

In this model, the auditing units of the Hessian State Office for Construction and Real Estate and the Hessian Central Office for Data Processing, as well as the Central Office Audit of the Regional Finance Office in Frankfurt, work together with the lead internal audit unit of the Hessian Ministry of Finance.

Germany

Local government: Increasing IA certified by external standard setters

Some IA offices are certified according to Audit Standard No. 3 of the German Institute of Internal Auditors (DIIR) and the Quality Norm DIN EN ISO 9001:2008. The latter covers all aspects of auditing activities and helps to monitor the effectiveness of internal auditing on an ongoing basis.

In Stuttgart, the planning of the frequency and focus (i.e., administrative processes, internal control systems, or specific transactions) of audits is systematically derived from risk assessments.

In Stuttgart however, reports are published annually on the website and provide detailed explanations of the audit results. In this way, the impact of the audit on the administration is likely to be strengthened, as public pressure can be exerted, which could favor the implementation of the recommendations.

Germany

Universities: Periodic monitoring of risk management system by internal audit unit and external auditors

The risk management system of the University Goettingen is audited periodically by the internal auditing unit and the executive board is informed of the results. In addition, the system is checked for functionality by the (external) auditor as part of the annual audits.

The Presidential Board and the Foundation University Committee are informed of the results. The internal audit unit is positioned outside the risk management process. It can be deduced from this positioning that the unit is suitable for supporting the university risk management, in this case the structure and design of the risk management process, and in particular its sustainability, both strategically and operationally.

Italy

Regional government: Diagnostic assessment system

A best practice is to provide the administration with a system which allows it to easily assess elements of the control system.

The internal auditor body of Lombardia Region, together with other stakeholders, has created a learning and training programme for auditing the internal control system and including:

- mapping the elements of the regional control system;

- developing a diagnostic system to assess the level of maturity of such elements according to the COSO framework;

- implementing the diagnostic system and identifying possible areas for improvement for certain elements as well as best practices to be exploited and shared within the internal control system;

- preparing and sharing regular assessments and reports on the level of maturity of the internal control system.

Recommendations on Internal audit

Promoting awareness of the IA outcomes to managers and politicians (IA2)

- importance of internal audit must be brought to the eyes of top managers and politicians

- training programmes developed internally to promote internal audit culture and to help manager recognizing the outcome of internal audit to assess the internal control system to avoid risks.

- IA reports shall be provided to the highest executive level of the organization and to the public

- These activities should foster awareness among relevant actors and, therefore, should stimulate a higher quality of internal audit (less formal and more substantial).

Recommendations on Internal audit

Fostering focus on relevant aspects of internal audit (IA3)

- IA should be guided by the relevance principle.

- Focus on those processes that has already proved to be dysfunctional from previous internal and external audits.

- Diagnostic tools should be structured in a way that are easy-to-understand and deploy evaluation systems that are not sophisticated.

- In a structured audit procedures that ends with implementation of recommendations, what is key is represented by a specific session of discussion of the IA report before final issuance: this promotes the real implementation of the IA process avoiding IA as a formal exercise.

- Tackling the weakness of formality or the lack of IA assessment

Recommendations on Internal audit

Fostering a network of internal auditors with multiple backgrounds (IA5)

- Hesse State, Germany, provides an interesting example of networking and cooperating among internal auditors with multiple backgrounds. In fact, different audit units with background in such fields as finance, construction, real estate, and data processing, help carrying out a better IA.

- Tackling the lack of skilled internal auditors, weakness of formality and the lack of internal audit assessment.

Recommendations on Internal audit

Providing a "delegation model" for smaller entities (IA6)

- In Germany, smaller entities have been given the option of having internal auditing performed by the Federal Office of Administration as service by delegation.

- Allows those entities where would be difficult, for economic reasons, to have skilled internal auditors.

- Sort of hybrid system, where external auditors provide internal auditing.

- Tackling the lack of skilled internal auditors, weakness of formality and the lack of internal audit assessment.

Method & General recommendations

Control Environment

Risk Assessment

Control Activities

Internal Audit

Closing Remarks

Closing remarks

Key concepts

Massive unintended effects of digital bureaucracy

Ambiguous and overlapping working definitions of
"internal and managerial control"

Consistency among the components of control systems

Tap the link or frame the QR code below to download here the final report:

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