



Public Internal Control

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Internal Control - COSO definition

A process, effected by an entity's board of directors, management and other staff, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance in the following categories:

- efficiency and effectiveness of operations, safeguarding of assets*
- reliability of reporting (financial and non-financial, internal and external)*
- compliance with laws and regulations*

Internal Control (COSO)

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Governance (ISO31000)

The combination of processes and structures implemented by the Board and management to inform, direct, manage and monitor the activities of the organisation towards the achievement of its objectives

Notice the **resemblance** between the definitions of *Internal Control* and *Governance*

Internal control – INTOSAI definition

Internal control is 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:

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage.

Key message

Internal Control:

- *Process*
- *owned by People*
- *Reasonable assurance that the mission is accomplished (objectives are achieved)*

All EU-28 countries have a system of Internal Control in their public sector

But there are differences....

- a) systems in compliance with up-to-date, generally accepted, international frameworks and standards*
- b) countries in transition (not yet fully compliant with framework/standards under (a))*
- c) Traditionally-gearred approaches, with focus on centralised management and controls*

Let's focus on PIC: internal control in the public sector compliant with international framework and standards

Main PIC Principles within the EU-28

- 1) Good governance as the main driver*
- 2) COSO/INTOSAI internal control set-up for decentralised managerial accountability*
- 3) Incorporating other relevant international guidance*
- 4) Centralised or decentralised functionally independent Internal Audit*
- 5) Accountability triangle*
- 6) CHU function*
- 7) Inspection function clearly separated from Internal Audit*
- 8) Active interaction between internal and external assurance providers*

PIC principles (1)

Good Governance as the main driver includes:

- *Respect of the law*
- *Acting in the public interest*
- *Integrity*
- *Tone at the top: do what you say and say what you do*
- *Transparency*
- *Objectivity: choices based on merit*
- *Accountability: explain how authority is used to achieve objectives – external and internal*

PIC principles (2)

Internal Control set-up that complies with COSO/INTOSAI recommended set-up for decentralised managerial accountability

An integrated and interconnected system:

- *Control environment*
- *Objective setting and risk management*
- *Control activities*
- *Information and communication (financial and non-financial, internal and external)*
- *Monitoring, Evaluation, and Internal Audit*

COSO interrelated components

Control environment

- Mission statement
- Integrity, Ethical climate and corporate values
- Organisational setup/Authority
- Human resources management

Risk Assessment

- Objective setting, Performance measurement and risk scope
- Risk identification and risk ownership
- Risk assessment
- Risk response (avoid, transfer, reduce, accept)

Control activities (to reduce the risks identified)

- Ensuring link with risks
- Control selection, design and evaluation
- Policies and procedures
- IT

Information and communication

- Financial and non-financial
- Internal and external
- Balanced Score Cards

Monitoring activities

- Regular and individual assessments
- Evaluation
- Internal Audit function

PIC principles (3)

Functionally independent Internal Audit

- *outspoken support by top management is key*
- *may be centralised or decentralised*
- *operated according to IA standards*
- *direct reporting lines to the Board/top management*
- *ideally supported by Audit Committee*

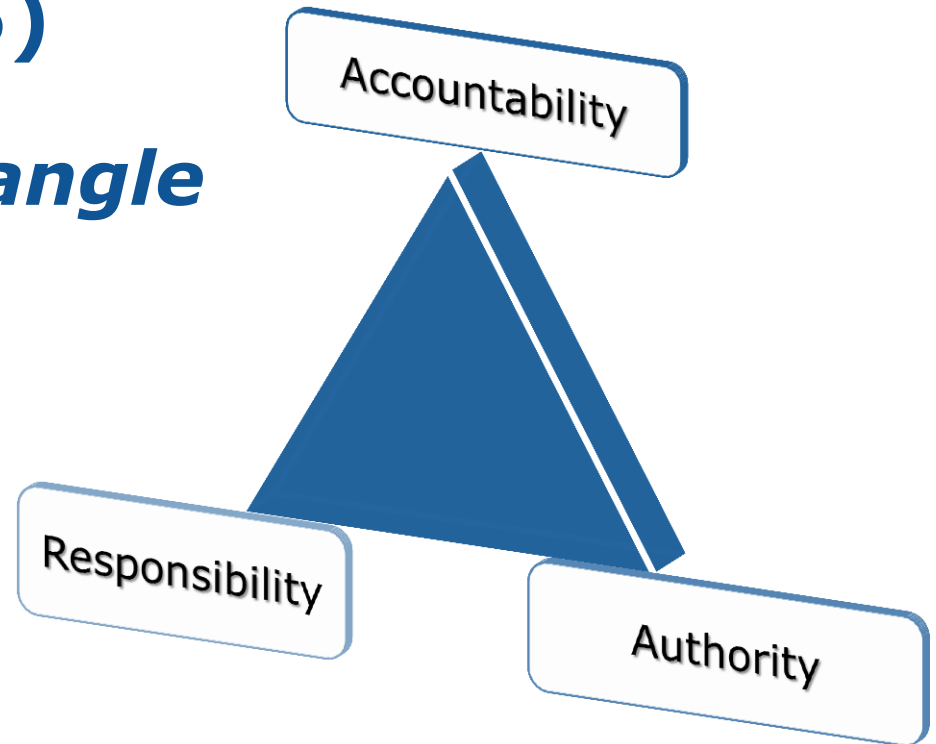
PIC principles (4)

Incorporating other relevant international guidance

- *IFAC*
- *OECD-SIGMA*
- *PEFA*

PIC principles (5)

Accountability triangle



- *Accountability relates to responsibility and empowerment (authority)*
- *Accountability cannot be delegated, responsibility and authority can*

PIC principles (6) - CHU function

Key role: coordinate and harmonise approaches and activities relating to PIC

Functions of the Central Harmonisation Unit must exist, the operational format may differ

- *Ensuring appropriate legislative framework (primary, secondary and tertiary)*
- *IC and IA standard setting*
- *Providing guidance*
- *Overseeing the PIC landscape and identify gaps*
- *Reporting*
- *Optional: Certification schemes*
Training (coordination)

PIC principles (7)

Inspection function clearly separated from Internal Audit function

	Internal Audit	Inspection
Format	Centralised or decentralised	Specialised service or part of police function
Driver	Adding value	Corrective action
Objective	Reasonable Assurance on G, RM, C	Focus on wrongdoing and its correction
Trigger	Based on Risk	Based on allegations, suspicion
Scope	Broad Management Issues	Legal and compliance
Type relation	Cordial (Critical Friend)	Adversarial, interrogative
Assumption	Expect things are OK	Probably not OK

PIC principles (8)

Active interaction between internal and external assurance providers

- Audit Committees
- External Audit (Court of Auditors) at national level
- External Audit (Audit Authority, European Commission, ECA) regarding EU funds
- Ultimate client is the Parliament

Conclusions

- *Good governance is essential for credible government*
- *Internal Control is the responsibility of all*
- *There are common principles underlying PIC*