



European Confederation of
**Institutes of
Internal Auditing**

Build and maintain an effective Internal Audit unit in the public sector

Enhancing governance through internal audit

Agenda

- **ECIIA in a nutshell**
- Internal Audit in the public sector
- Enhancing the quality



About ECIIA



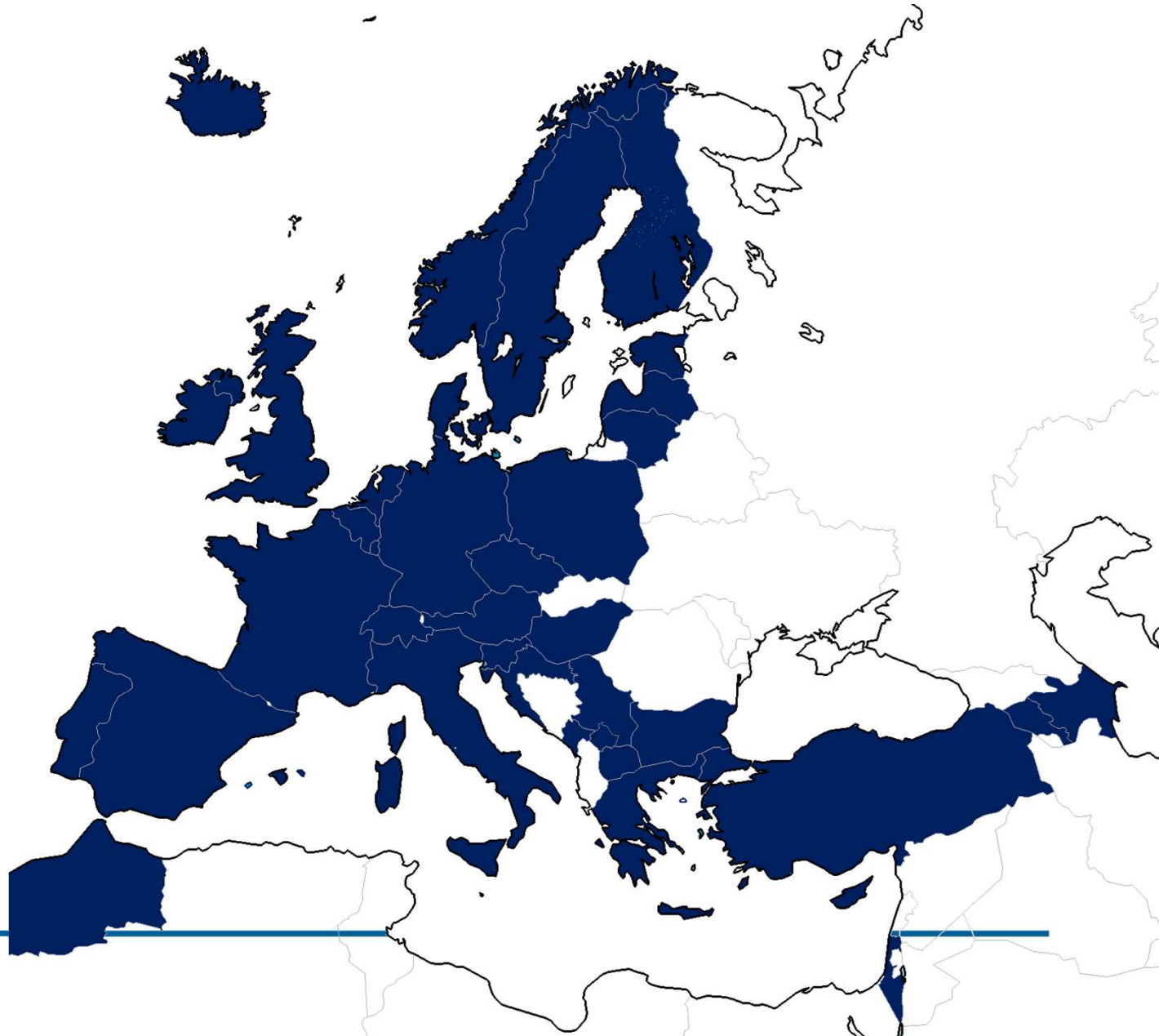
34 National institutes



55 000 internal auditors

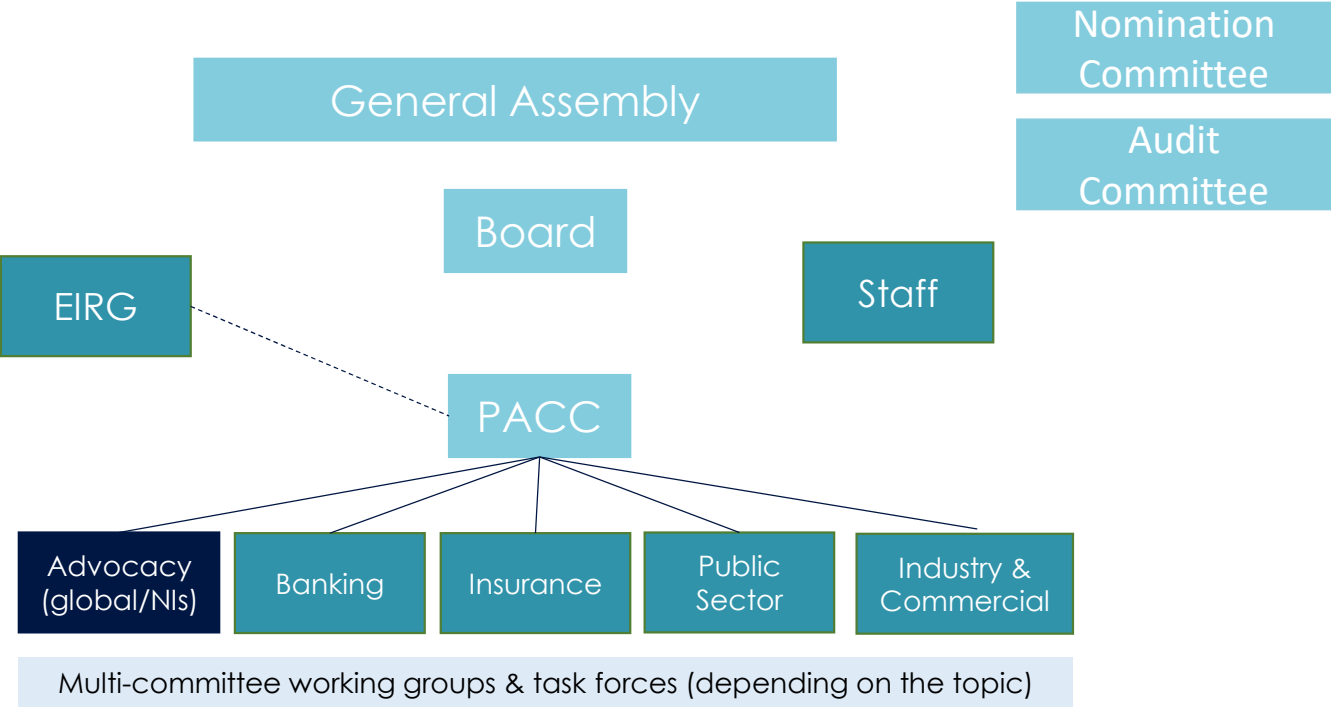


**The consolidated voice for
the profession of internal
auditing in Europe**



European Confederation of
**Institutes of
Internal Auditing**

ECIIA organisation



Advocacy & Public Affairs: targets

Main European Bodies →

influence



Objective:

Promote **good corporate governance** & **appropriate recognition of Internal Audit** in European regulations and Corporate Governance codes

collaborate with



Objective:

Build relationships with key institutions interested in Corporate Governance at European level
Organize common events, make **common publications...**

ECIA Advocacy activities



Webinars



**Reactions to
Consultations**



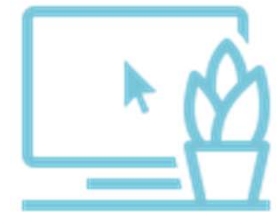
Papers



**Regulators
Meetings
With regulators**



Surveys



**Forum-
Conference**



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Internal Auditing (IIA Standards)

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.



Main Principles

- Integrity
- Objectivity
- Confidentiality
- Competency



Public sector context

- Accountability in public funding
- Political interests and objectivity
- Governance
- Public interest
- Transparency



Internal Audit activities

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations, and programs.
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts



Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.



Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.



The role of internal audit (1)

- The Scope of internal audit includes the risk and control culture of the organisation.
- Assess:
 - processes (e.g. appraisal and remuneration)
 - actions (e.g. decision making)
 - “tone at the top”.
- Are they in line with the values, ethics, risk appetite and policies of the organisation?



The role of internal audit (2)

- Consider attitude and assess approach taken by all levels of management to risk management and internal control
- including management's:
 - actions taken in addressing known control deficiencies
 - regular assessment of controls.



Performing engagements

- Review the strategies and objectives of the activity
- Review and evaluate the means by which the activity controls its performance
- Identify the significant risks to the activity's objectives, resources and operations
- Evaluate the adequacy and effectiveness of the activity's governance, risk management, and control processes
- Identify opportunities for significant improvements



Controls (1)



Controls (2)

The internal audit activity must evaluate the **adequacy and effectiveness of controls** in responding to risks within the organization's governance, operations, and information systems



Technical and organisational control activities

- Access controls, also concerning IT (Password etc.)
- Written process instructions
- documentation for procedures and processes
- Signature authorisation
- Data reconciliation
- Record alignment
- Delivery control, Inventory



Internal Controls for public procurement

- Transparency
- Two man rule / four eyes-principle: no case without double check
- Separating functions: planning – procurement by tender – billing
- Information: Need to know-principle



Preventing corruption

- Segregation of duties and transparency
- Regulations concerning gratifications
- Identify and assess areas with higher risks for corruption
- Internal Auditing
- Awareness raising and instructions
- Education and training
- Supervision and supervisory control
- Taking measures concerning allegations of bribery
- Procurement procedures



(© colourbox)



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Key factors for a good Internal Audit function

Key factor:

- Position of Internal Audit
- Resources
- Standards (IIA)
- Education / certification
- Quality Assessment

Your Situation:

- Independent or line unit?
- Sufficient/not sufficient?
- Amended/set in the law?
- Scheme in use?
- In operation/not active

Core criteria for the quality of IA units

Core Criteria	Topic	Question
1	Organization, integration into the public entity and Responsibilities	I.1 Is there an official written, appropriate audit charter?
2	Organization, integration into the public entity and Responsibilities	I.5 Neutrality, independence from other functions and unlimited right to information are guaranteed
3	Budget/Resources	II.1 The Internal Audit Unit has adequate quantitative and qualitative staffing
4	Planning	III.1 The audit plan of the Internal Audit Unit is prepared based on a standardized and risk-oriented planning process
5	Performing the Audit Engagement	V.7 The type and scope of the audit activities and results are documented in a standardised, proper and orderly manner.
6	Follow-Up	VIII.1 The implementation of measures documented in the report is monitored by the Internal Audit Unit through an effective follow-up process

Criteria 1: Internal Audit Charter

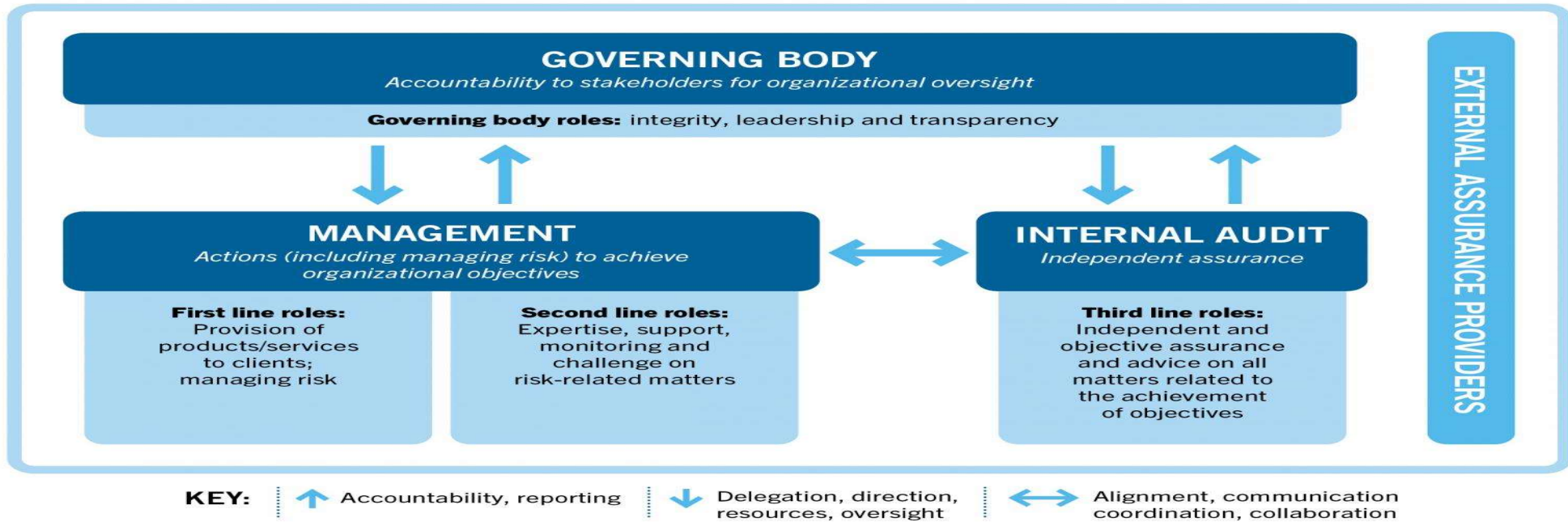
The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility.

The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit



Criteria 2: Three Lines Model

The IIA's Three Lines Model (2020)



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Criteria 3-5: Management of an Internal Audit function (1)

- The chief audit executive must establish a **risk-based plan** to determine the priorities of the internal audit activity, **consistent with the organization's goals**.
- The internal audit activity's plan of engagements must be based on a **documented risk assessment**, undertaken at least **annually**. The input of senior management and the board must be considered in this process.
- The chief audit executive must ensure that internal audit **resources are appropriate, sufficient, and effectively deployed** to achieve the approved plan.



Criteria 3-5: Management of an Internal Audit function (2)

- The chief audit executive must **establish policies and procedures** to guide the internal audit activity.
- The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and **minimize duplication of efforts**.



Attention!

- **Establishing internal audit units staffed with 1 person is the worst solution.**
- Standards are not fulfilled
- Carrying out Internal Audit tasks in a proper way is not possible
- This option leads to a waste of resources

- Possible solution: bundling IA staff for several entities to care of the IA duties, e. g. IA service for social security



Criteria 6: Monitoring process

- The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
- The chief audit executive must establish a **follow-up process** to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.



Example for the Reporting (1)

1. Result of the Quality Assessment

The Quality Assessment Team concludes that the policies and procedures of the Internal Audit Unit, as well as their application, at least comply with the core criteria. The system works, but some improvements are needed. Some deficiencies were found. These deficiencies have a moderate impact on the functioning of the assessed core criteria. Recommendations have been formulated (see chapter 4) for implementation by the Internal Audit Unit.

Core Criteria	Topic	Assessment
1	Organization, integration into the public entity and Responsibilities	Category 1
2	Organization, integration into the public entity and Responsibilities	Category 1
3	Budget/Resources	Category 2
4	Planning	Category 2
5	Performing the Audit Engagement	Category 2
6	Follow-Up	Category 1
		Category 2



Example for the Reporting (2)

Annex A Checklist

The core principle covers the IIA Standards:

Fundamentals

- Organization, integration into the public entity and Responsibilities

Question	Considered standard	Criteria Met	Quality Assessor's Comment	Example for Best Practise	Assessment/Rating	Working Paper File Reference
I.1 Is there an official written, appropriate audit charter? (core criteria 1)	IIA 2010 IIA 2040	Yes		The audit charter was developed in accordance with the CFPI Law and endorsed by the UCA.		Audit Charter
I.2 Has the audit strategy/ audit charter been approved by the CHU and is it regularly updated with regard to the organizational goals?	IIA 1010	Yes		Both documents were endorsed by the UCA		Strategic Plan of Internal Audit Directorate Audit Charter



Your questions



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