



Quality check of the internal audit activities in the public sector

Nikolina Bibić,
Ministry of Finance
Republic of Croatia



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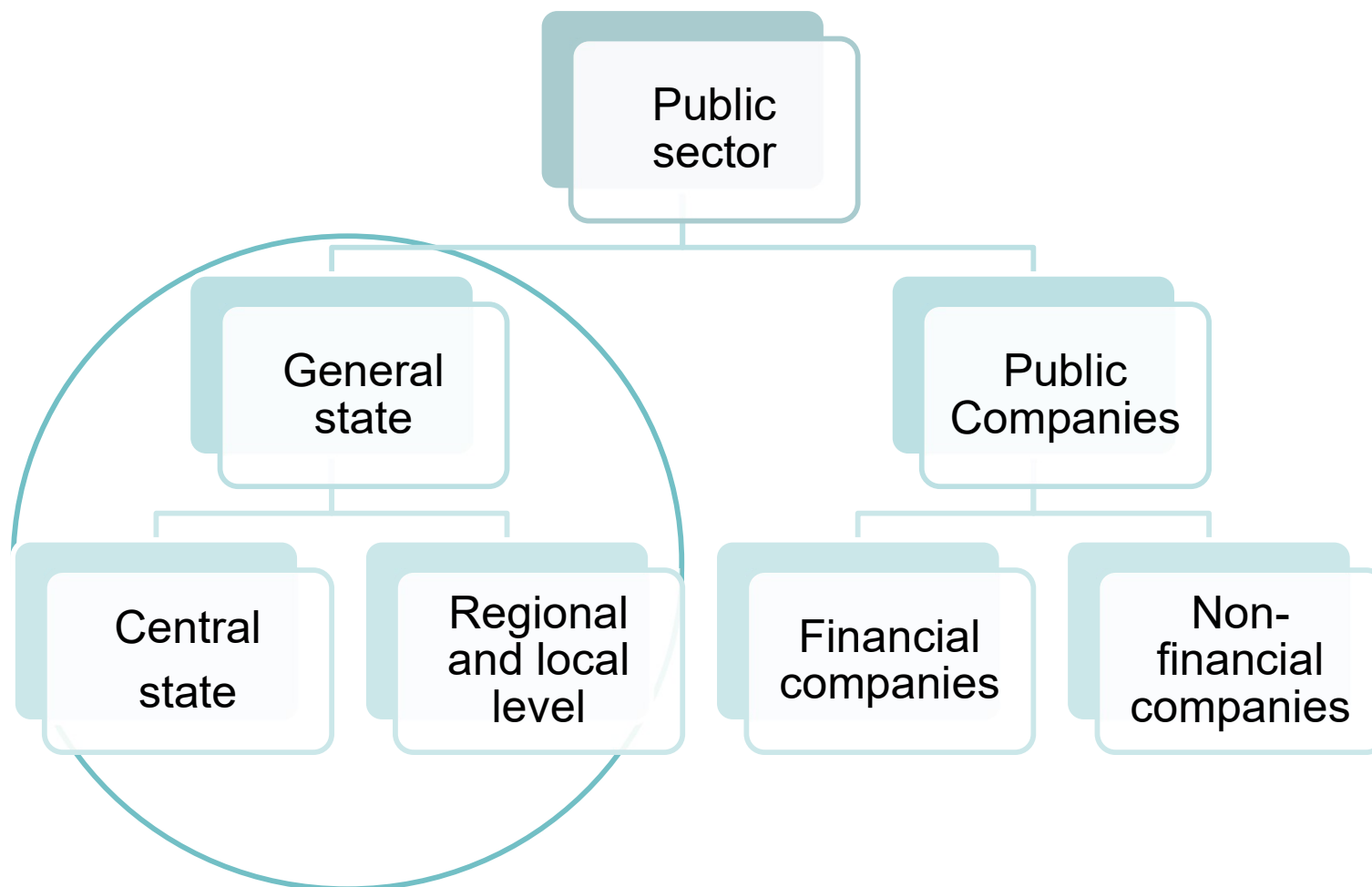
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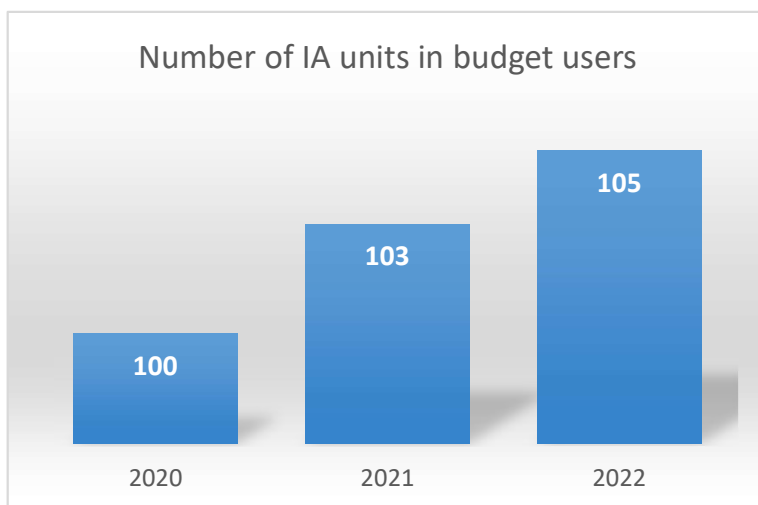
1.1. Overview of the public sector of the Republic of Croatia





1.1. Overview of the public sector of the Republic of Croatia

	Number of budget users that have established the internal audit unit			Number of internal auditors		
	2020	2021	2022	2020	2021	2022
Central level	46	49	50	156	161	164
Local level	54	54	55	94	98	95
Total:	100	103	105	250	259	259



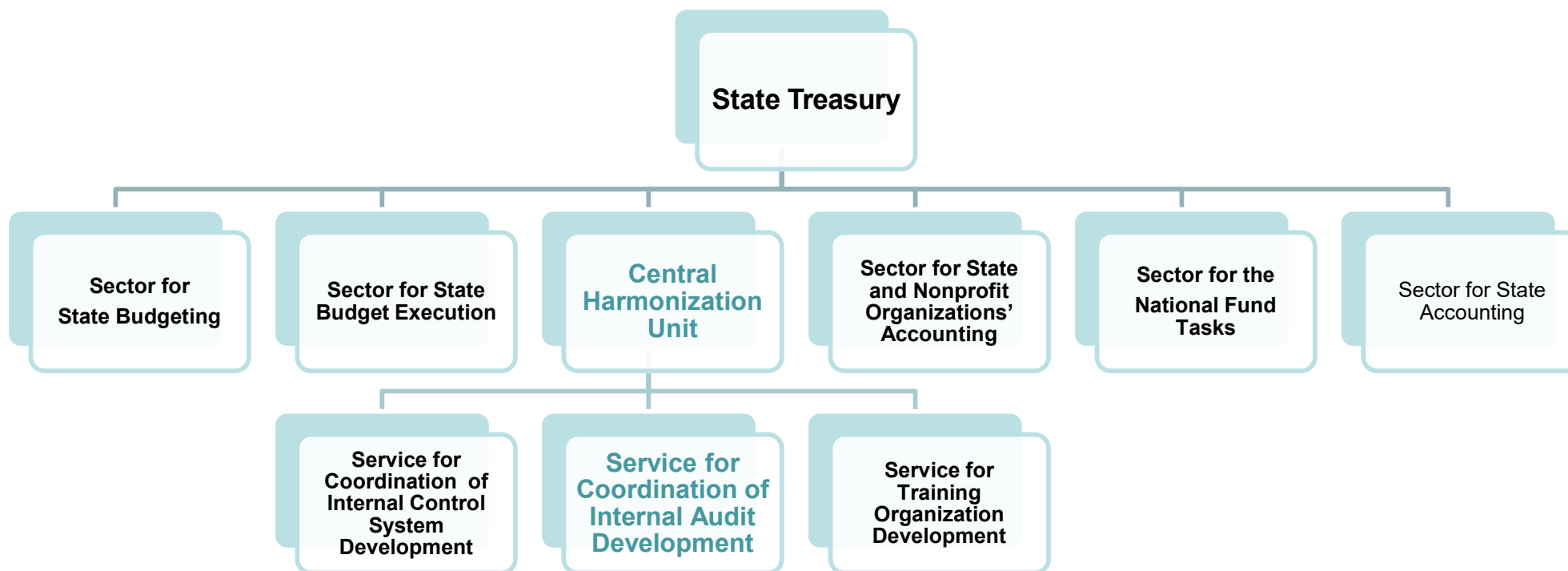


1.2. The role of the Central Harmonization Unit (CHU) in the Republic of Croatia

- Law on public internal control system (2006, 2015, 2019)
 - **The Ministry of Finance**
 - Competent for coordination of the internal control system development in the public sector
 - **Sector for Harmonization of Internal Control System Development**
 - **Central Harmonization Unit**
 - The organizational unit within the Ministry of Finance responsible for coordination of activities

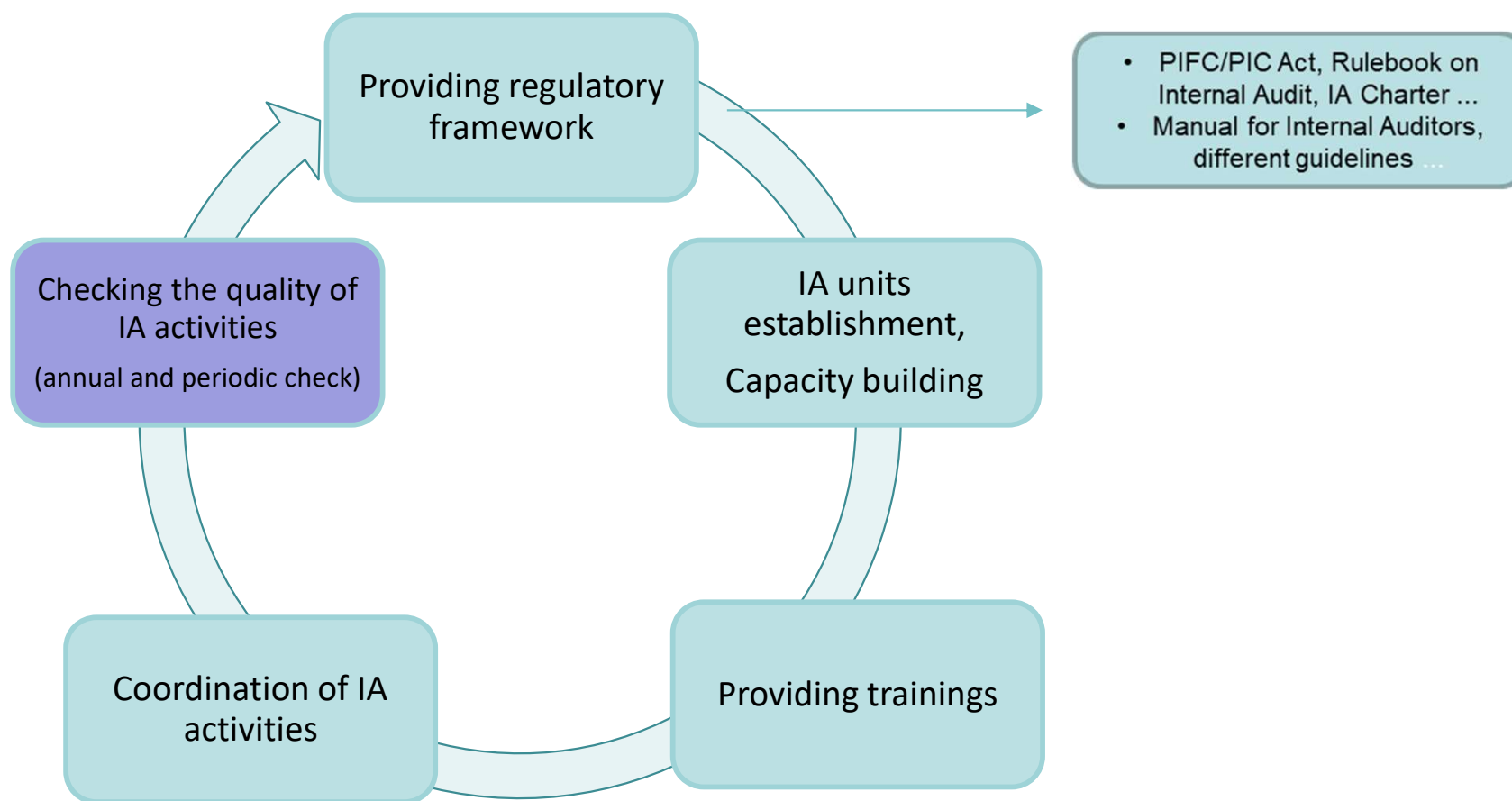


1.2. The role of the Central Harmonization Unit (CHU)





1.2. The role of the Central Harmonization Unit (CHU)





1.3. Legal basis - Quality check by the CHU

Law on public internal control system (2006, 2015, 2019)

ANNUAL
CHECK
(Consolidated
Annual Report
on ICS)

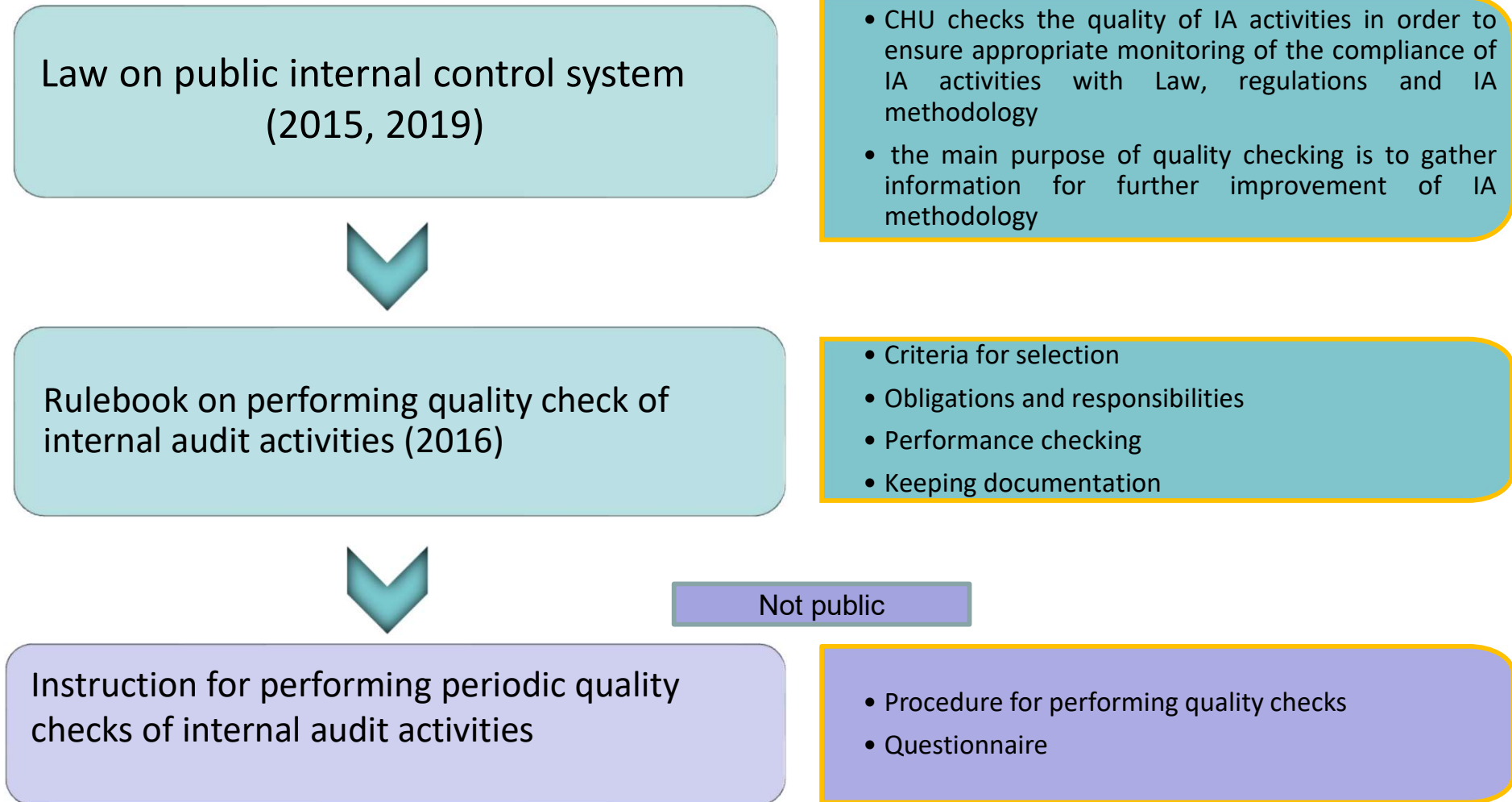
- Number of audits performed
- Number of recommendations given
- Status of implementation of recommendations
- Data on impacts of implementation of internal audit recommendations
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PERIODIC
QUALITY CHECK

- Started in **2013**
- 4 models
- **Could not be regarded as Independent External Assessment required by the Standards**

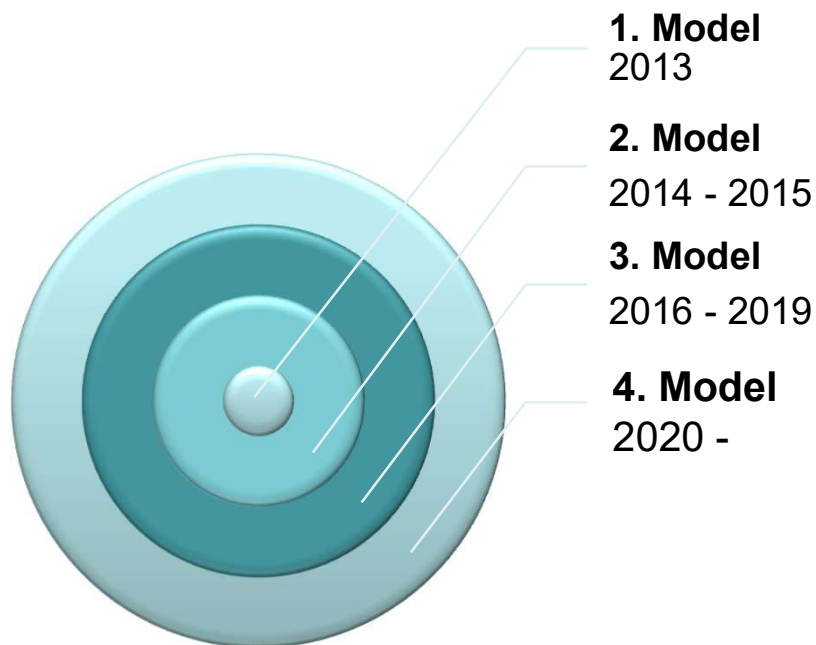


1.3. Legal basis - Quality check by the CHU





2. Development of the quality check models



Regulations

1. Model

- Instructions for Performing Periodic Quality Check of Internal Audit Activity (ver. 1.0) (2013)

2. Model

- Instructions for Performing Periodic Quality Check of Internal Audit Activity (ver. 2.0) (2014)

3. Model

- *Rulebook on Performing Periodic Quality Check of Internal Audit Activity (2016)*
- Instructions for Performing Periodic Quality Check of Internal Audit Activity (ver.3.0) (2016-2019)

4. Model

- *Rulebook on Performing Periodic Quality Check of Internal Audit Activity (2016)*
- Instructions for Performing Periodic Quality Check of Internal Audit Activity (ver.4.0) (2020)



2. Quality check by the CHU, Model 1, 2013

Process

- 11 checklists (assessment areas)
- Interview with HIAU and the management
- Anonymous questionnaire for internal auditors and auditees
- Opinion on conformity – percentage of conformity by each checklist/assessment area

Weaknesses detected

- All the questions in checklists were of the same importance
- Some questions were repeated in different checklists
- Without general conclusion on the quality checks performed

Percentage of conformity	Assessment of conformity	Description of assessment	Opinion on conformity
≤50%	0	Does Not Conformnon conformance impair the ability to perform internal audits
51% - 75%	1	Partially Conforms	Potential for significant improvements
76% – 99%	2	Mostly Conforms	Potential for minor improvements
100 %	3	Conforms	All requirements are fulfilled



2. Quality check by the CHU, Model 2, 2014 - 2015

Process

- 8 checklists (assessment areas)
- Interview with management
- Anonymous questionnaire for internal auditors and auditees
- Opinion on conformity – key assessment criteria, secondary assessment criteria

Weaknesses detected

- Mostly conforming with
 - Manual for Internal Auditors
 - Rulebook on Internal Audit
 - IA Charter
 - Training regulations
- Lack of assessment of effectiveness of internal audit reports (audit findings, recommendations, opinions)

Key assessment criteria	Secondary assessment criteria	Description of criteria	Opinion
		Does Not Conformnon conformance impair the ability to perform internal audits
		Partially Conforms	Potential for significant improvements
		Mostly Conforms	Potential for minor improvements
		Conforms	All requirements are fulfilled



2. Quality check by the CHU, Model 3, 2016 – 2019

1. ESTABLISHMENT OF INTERNAL AUDIT AND AUDIT RESOURCES

- IA Charter
- Organizational status of internal audit
- Objectivity of internal auditors
- Qualifications and competencies of internal auditors

2. INTERNAL AUDIT MANAGEMENT

- Preparation of strategic and annual audit plans
- Communication with management during planning process
- Coordination with external auditors
- Internal audit procedures and Quality Assurance and Improvement Program

3. PERFORMING INTERNAL AUDIT

- Planning of individual audits and preliminary activities
- Testing
- Reporting
- Monitoring of individual audits

4. IMPACT OF IMPLEMENTATION OF RECOMMENDATIONS

- Follow-up of implementation of internal audit recommendations
- Final impact of implementation of internal audit recommendations



2. Quality Check by the CHU, Model 4, 2020 -

1. ESTABLISHMENT OF INTERNAL AUDIT

- IA Charter
- Organizational status of internal audit

2. AUDIT RESOURCES

- Objectivity of internal auditors
- Qualifications and competencies of internal auditors
- CPE

3. INTERNAL AUDIT MANAGEMENT

- Preparation of strategic and annual audit plans
- Communication with the management during planning process
- Coordination with external auditors
- Internal audit procedures and Quality Assurance and Improvement Program

4. PERFORMING INTERNAL AUDIT

- Planning of individual audits and preliminary activities
- Testing
- Monitoring of individual audits

5. REPORTING

- Reporting
- Quality of audit report

6. IMPACT OF IMPLEMENTATION OF RECOMMENDATIONS

- Follow-up of implementation of internal audit recommendations
- Final impact of implementation of internal audit recommendations



2. Periodic quality check by the CHU - Model 4, 2020 -

- More than just a compliance with the regulatory framework
- Detailed assessment of audit observations, recommendations, opinions

Description of criteria	Opinion
Does not conform	Non conformance impairs the ability of internal audit
Partially conforms	Potential for significant improvements
Conforms*	Potential for minor improvements
Conforms	All requirements are fulfilled



3. Process of performing of the quality checks





3. Process of planning of the quality checks

- The CHU prepares, Minister of Finance adopts
 - Annual Plan for Periodic Quality Check
 - Criteria for IA units selection
 - Decision on the Appointment of Persons to Perform Periodic Quality Check
 - Employees of the CHU and other persons from budget users
 - Statement on Confidentiality and Impartiality



3. Process of planning of the quality checks

Annual plan for periodic Quality Check

Criteria for selecting budget users where the quality checking of IA activities will be performed:

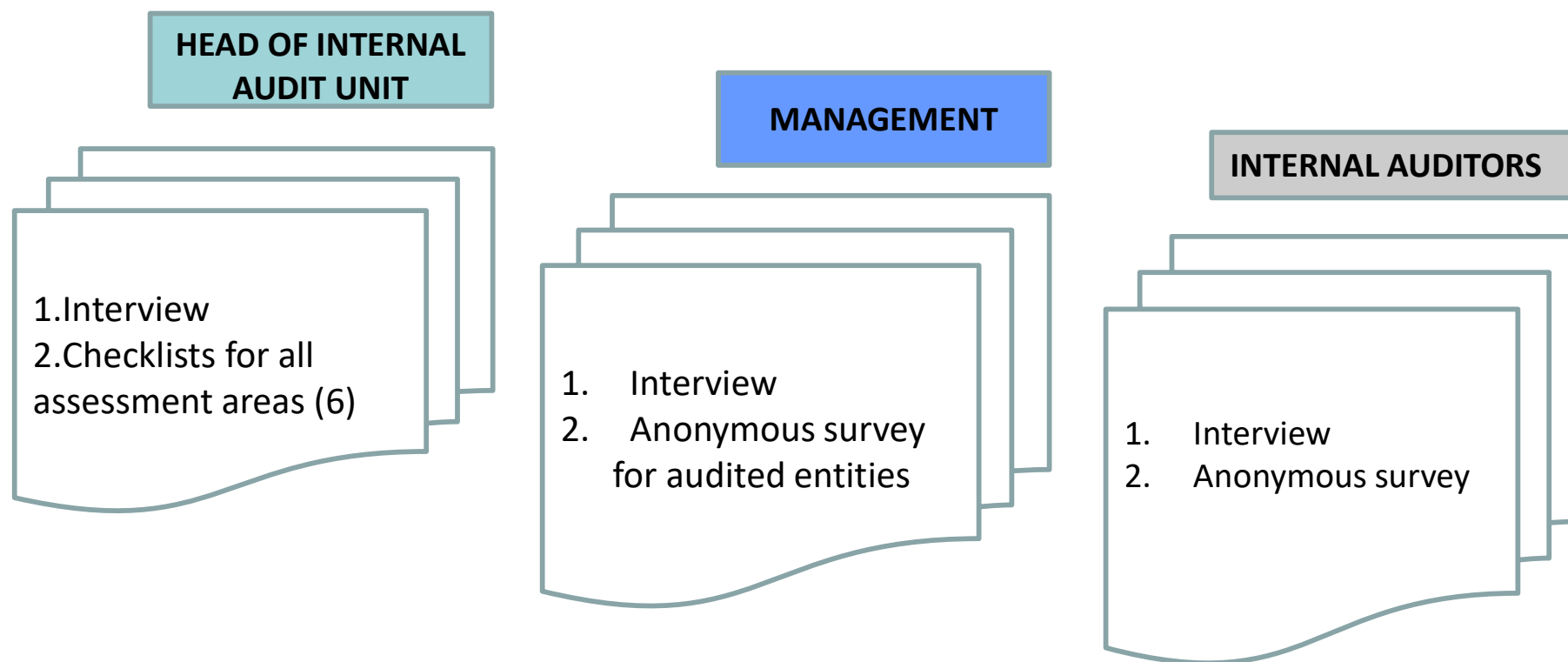
- Results of analysis of strategic and annual internal audit plans
- Results of analysis of the impacts of implemented IA recommendations
- Previously performed quality checks
- Role of budget users in the management and control of EU funds
- Information on internal control system in budget users
- Information from external audit reports (SAI) and other available information (budget inspection, etc.)

An example



3. Process of preforming quality checks

- Checks take about 14 days (preparation, 3 days of field work)





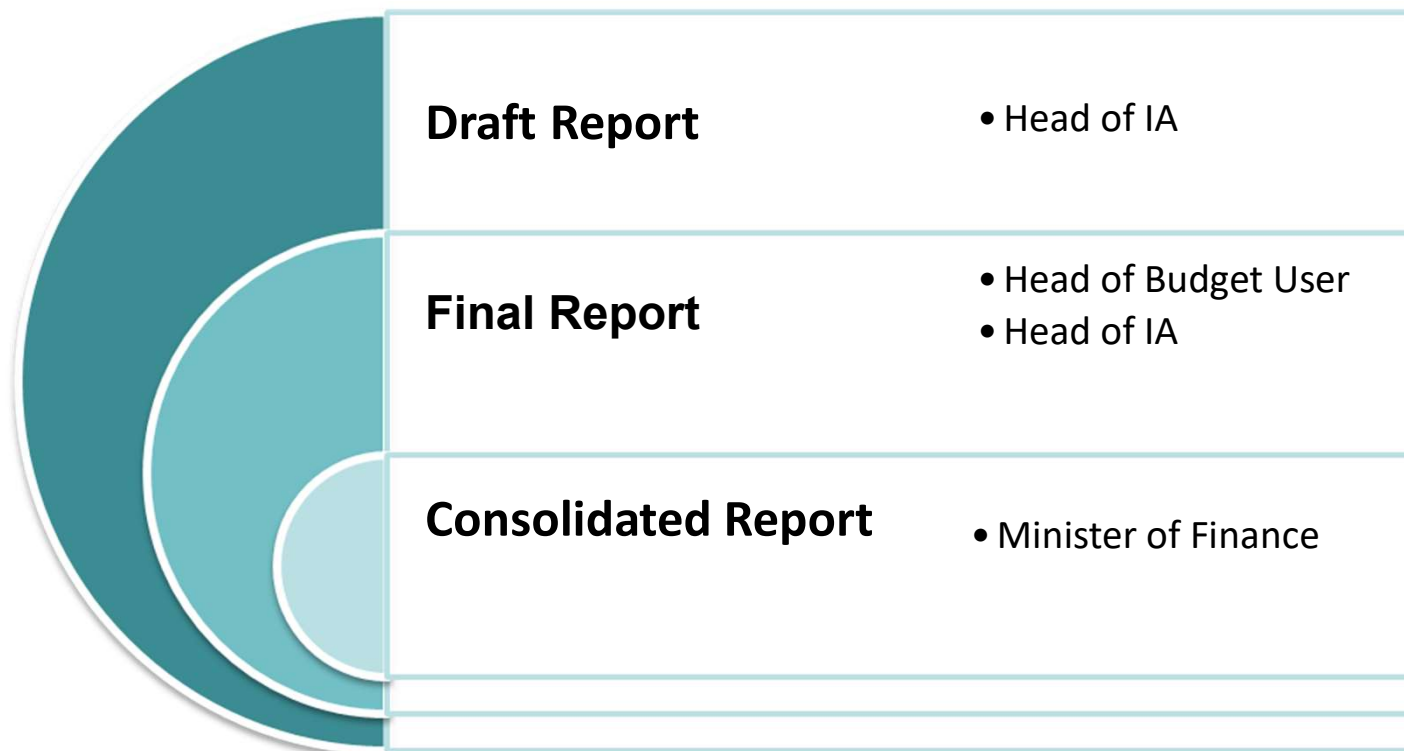
3. Process of performing quality checks

Review of documents

- Internal Audit Establishment Act
- Internal Organization Rulebook
- Internal Audit Charter
- Job description and position requirements / evidence demonstrating the fulfillment of requirements
- Evidence of continuing professional development
- Written procedures
- Strategic and annual plan of internal audit (planning methodology)
- Conducting internal audits / internal audit methodology (on x/y samples of completed internal audits)
- Working papers (permanent audit files / audit assignment files)
- Documenting the status of recommendations
- Reporting to management (annual, semi-annual, quarterly reports)
- Quality assurance program (ongoing monitoring and periodic reviews)
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3. Process of reporting quality checks





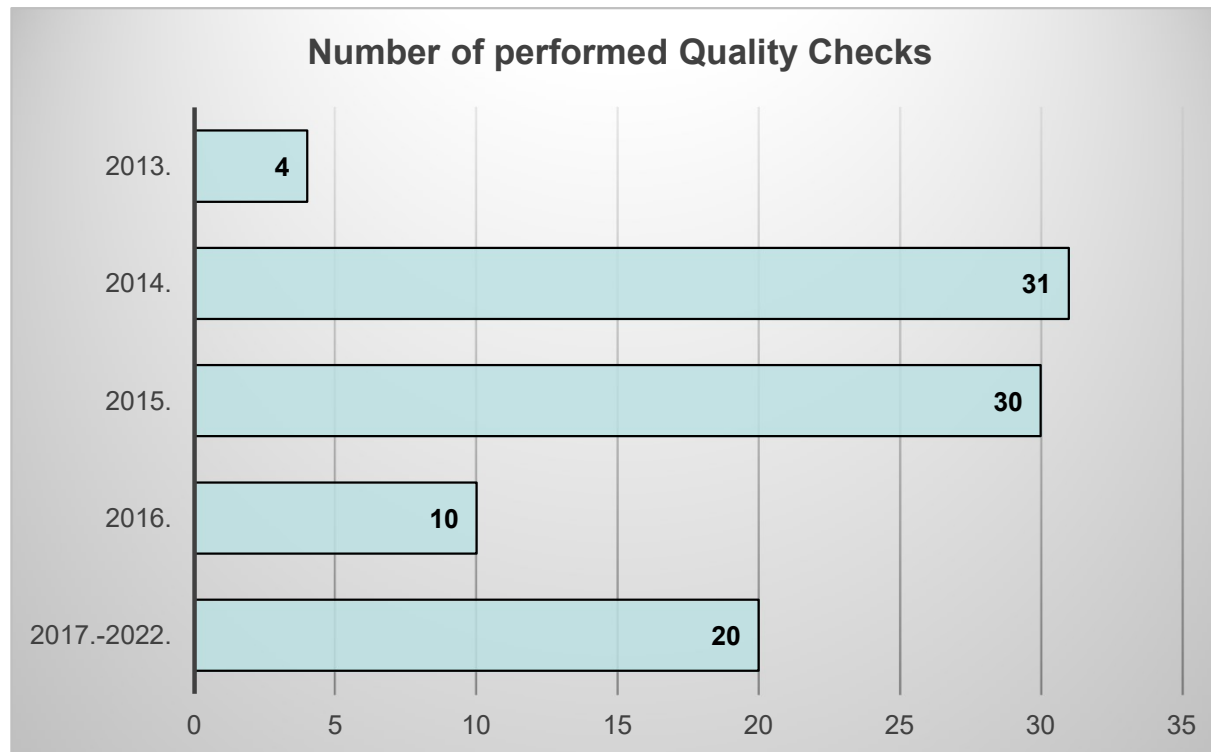
3. Process of reporting quality checks

Content of the report

- **Introduction**
 - ✓ Purpose and scope of assessment
 - ✓ Methodology used for quality assessment
- **Opinion about performed assessment** (by areas of assessment and general)
 - ✓ Findings, assessment, opinion, recommendations
- **Conclusion**
 - ✓ Tabular presentation of proposed improvements (addressed to the head of budget user)
 - ✓ Tabular presentation of examined areas and quality level (addressed to the head of internal audit unit)
 - ✓ Comprehensive opinion (based on individual assessments by areas)



4. Results of the performed quality checks





4. Results of the performed quality checks

Areas for improvement:

- the process of preparing a strategic and annual plan
- the quality of the audit report
- effects of implementation of recommendations



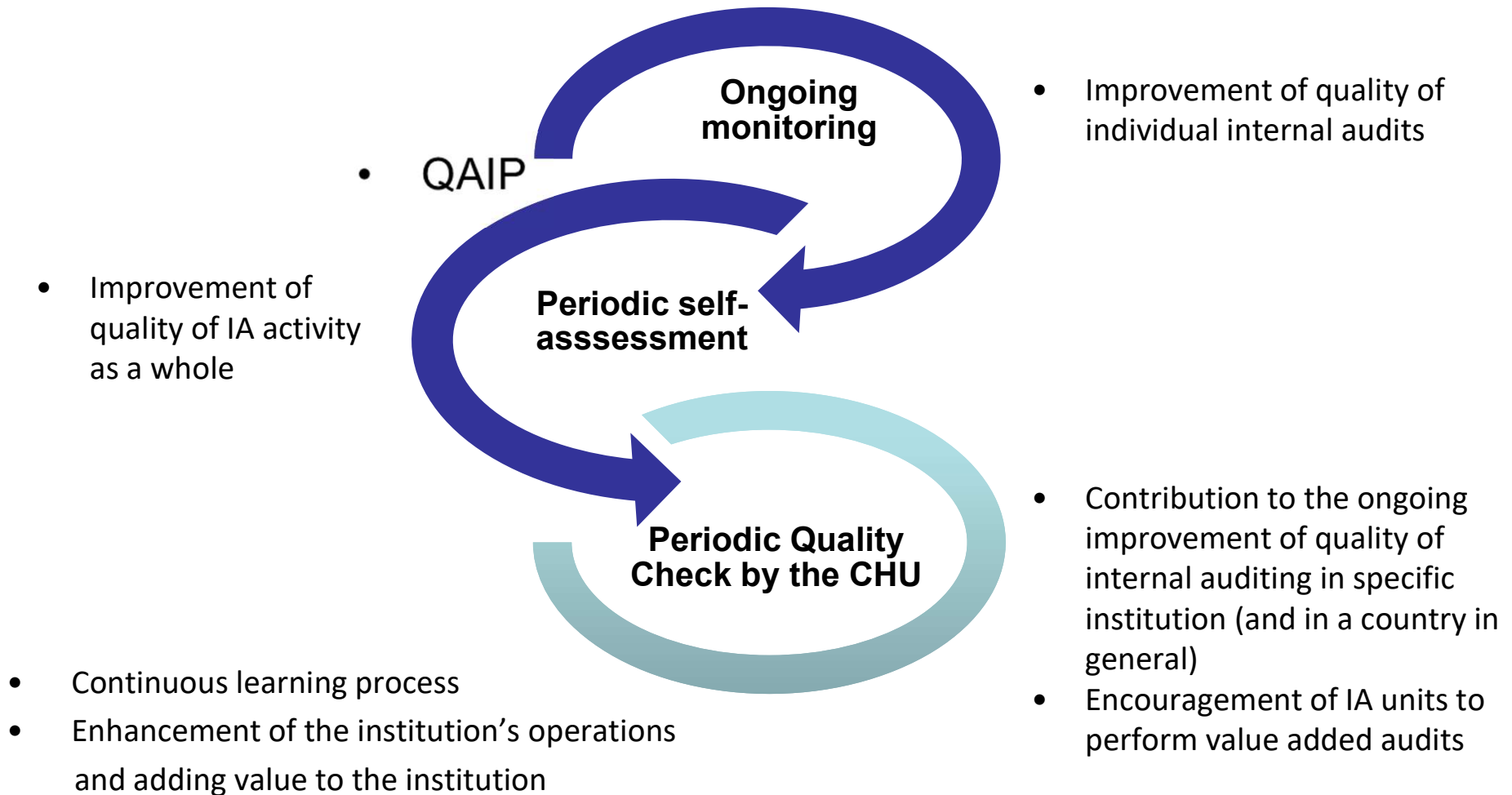


4. Results of the performed quality checks

- **Head of internal audit unit**
 - Received information on shortcomings regarding internal audit units management
- **Head of institution**
 - Received information on compliance of their internal audit units with Standards and methodology for the first time
- **CHU – collected information in order to**
 - Improve methodology
 - New Guidelines on Strategic and Annual Internal Audit Planning
 - New Methodology for performing individual audits
 - Improve trainings materials

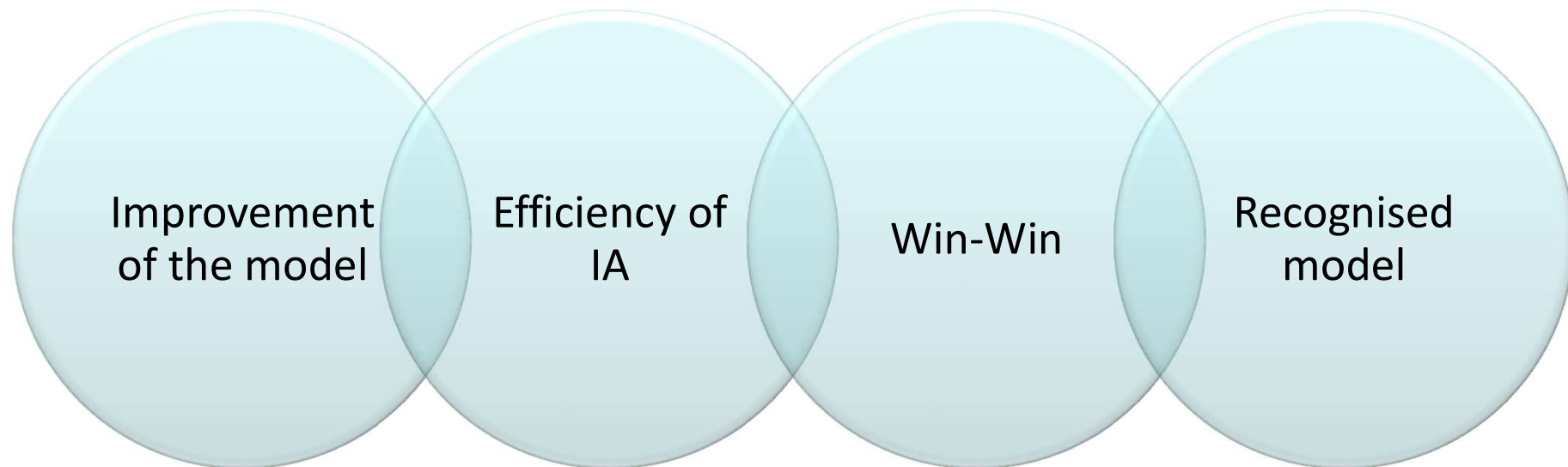


5. Conclusion





5. Conclusion





Thank you for your attention!

Nikolina.Bibic@mfin.hr

