

EUROSAI-ECIIA JOINT SEMINAR, BRUSSELS, 11 MAY 2017

PROGRAM

Welcome

Philippe Roland, Senior President SAI Belgium

Henrik Stein, ECIIA President

Tytti Yli-Viikari, Auditor General SAI Finland and EUROSAI Vice-Chair

SAI-IA cooperation on informal basis

Klaus Freudenschuss, SAI Austria

Cooperation between IIA-SAI in Hungary : Best Practices

Robert Kollar, IIA Hungary

International Certification in Audit

Ciarán Spillane, European Commission, Internal Audit Service

Using the work of IA in SAI financial auditing

Martin Abbink and Ton Kok, SAI Netherlands

SAI methodological approaches to analysis and control of efficiency of IA

Tatiana Ivanova, SAI Russian Federation

Risk Management in the Public Sector

Soledad Llamas, IIA Spain

National cooperation agreements between SAIs and IA in Europe

Semih Zencirkiran, SAI Turkey

Multilateral national cooperation agreement : implementation

Kristina Jakštonytė, SAI Lithuania

The new Internal Audit IPPFs (International Professional Practices Framework)

Pascale Vandenbussche, ECIIA Secretary General

Audit Committees in the Public Sector in Europe : presentation of survey results and recommendations

Melvyn Neate, ECIIA Board member, IIA UK & Ireland

Wim François and Philip Mariscal, SAI Belgium

Prospective vision of public sector audit evolutions in Europe

Peter Welch, European Court of Auditors

Juan Ignacio Ruiz Zorrilla, ECIIA Board member, IIA Spain

Conclusions of the joint seminar

Gijs de Vries, Seminar Chairman

WELCOME: SAI BELGIUM Senior President

This seminar marks the culmination of a cooperation process that started around 2010, when the first tentative steps were taken towards a formal cooperation agreement between EUROSAI and ECIIA. Over the past six years a number of cooperation products, in particular joint papers, have been delivered by the Editorial committee (2011-2014) and the Cooperation committee (2014-2017). The cooperation between EUROSAI and ECIIA has been a challenging process for both parties. People with different backgrounds, views and agendas managed though to find common ground and to deliver useful products, involving experts from a considerable number of SAIs and IIAs.

WELCOME: ECIIA President

Advocacy is the core business of ECIIA as mentioned in the mission recently reviewed. IA and SAI have different role, different stakeholders (legislator, Parliament for SAI). But both professions have common objectives. The cooperation with other assurance providers is key for both professions: stakeholders are looking for one message, one voice. ECIIA promotes the 3 lines of defense model and the set-up of Audit Committees. Today, there are new challenges for both professions: cost cutting, more efficiency; more transparency, reinforcement of legal constrains; new risks, digitalization, cyber, fraud; ethics is becoming essential and must be audited; governance is becoming essential, who is accountable for what, who is responsible for what? The collaboration ECIIA-EUROSAI will go on with new projects in the future.

WELCOME: EUROSAI Vice-Chair

The Sioux Chief Sitting Bull was portrayed as a knowledgeable, able and wise leader with a strong ethical stance. While lesser chiefs were portrayed as feeble and easily falling for the bribes they were offered for their land, Sitting Bull kept his target clear and acted in line with his morale. He was challenged by a radical change in his environment.

Over the period of EUROSAI's existence the global context has considerably changed; both the requirements and the environment in which we operate look very different. New ways of working are required in order for us to remain relevant. We should also make better use of active inter-institutional relations.

Cross-sector collaboration is of an utmost importance in today's world. Sharing insights on good governance, risks for public sector and best practice in risk management can benefit both external and internal auditors – which also corresponds to the INTOSAI's motto Mutual Experience Benefits All.

What auditors could learn from Sitting Bull is to stay true to ethical requirements and good governance even as our changing environment lures us and our societies with attractive new gadgets. As risks become more and more global and intertwined, a good way to enhance our collective ability to strengthen good governance and the resilience of our societies is to share our insights. An active dialogue between different audit professions can help build a better overall picture of risks and the state of risk management in the public sector.

KEY MESSAGES FROM THE SEMINAR

SAI – IA COOPERATION AT AN INFORMAL LEVEL, SAI AUSTRIA

The cooperation between the Austrian Court of Audit (ACA) and Internal Auditors is a very much established one and its experiences of having a cooperation with the Internal Auditors at an informal level is a very good one. When an audit is performed, the internal revision is contacted and their audit reports are viewed. Benefits are maximized through this direct contact in the preparation of an audit, which contributes to a better preparation for the audit and may also allow shorter in-field audits.

The ACA uses international standards or international references regarding coordination and cooperation (e.g. INTOSAI GOV 9150). Furthermore its quality standards for audits and its guideline on Internal Control Systems provide significant information with regard to internal audits.

When it comes to exchanging knowledge and knowledge building between audit institutions the ACA's knowledge communities are offering the opportunity for an intense and operational knowledge transfer which could therefore create new impulses for public-sector audits and increase the effectiveness of audits.

COOPERATION BETWEEN IIA-SAI IN HUNGARY : BEST PRACTICES, IIA HUNGARY

A cooperation agreement with SAO has been signed in Hungary in 2010. Aim of the co-operation:

- 🌐 Use the experience of SAO and IIA in developing the IA function
- 🌐 Developing Best practices
- 🌐 Use the training experience of IIA Hungary
- 🌐 Foster the communication between the auditors of different sectors
- 🌐 Further development of IA methodology and standards for Public Sector
- 🌐 Supporting the development of Quality Assurance
- 🌐 Developing methodologies for corruption - risk assessment activities
- 🌐 Developing the overall Control environment

Forms of the co-operation:

- 🌐 Development of training and development programs
- 🌐 Sharing the audit experience of SAO
- 🌐 Common support to other organizations
- 🌐 Cross-participation on events and training courses
- 🌐 Publish professional achievements in periodicals
- 🌐 Exchange knowledge obtained from international programs
- 🌐 Regular meetings

The main audit topics to focus on are: Risk Assessment and Risk Mapping, Control Self-Assessment, Audit Quality Assessment, Fraud prevention, detection, IT Audit techniques.

INTERNATIONAL CERTIFICATION IN AUDIT, IAS EUROPEAN COMMISSION

The Internal Audit Services (IAS) at the European Commission have built an Internal Audit Training Program (IATP) to strengthen accountability to the public and improve government services with the following objectives:

- 🌐 guarantee continuous professional development of our IAs to meet professional standards set by the Institute of Internal Auditors (IIA).
- 🌐 prepare IAs for internationally recognized audit certification and to pass a certification test either for Certified Government Auditing Professional (CGAP®), Certified Internal Auditor (CIA®), Certified Information Systems Auditor (CISA®) and/or other certification programmes (e.g. Chartered Accountant 8th Dir.).

The program strengthens the credibility of the auditors and increases leverage in meeting IIA standards for internal auditors (IPFS) and making IAS' recommendations accepted. This is a requirement of the IAS' Charter.

The advantages of international certifications are:

- 🌐 Certifying body keeps examination process up to date
- 🌐 Study at own pace with flexibility to complete field work outside of HQ
- 🌐 Staff acquire a minimum audit knowledge base giving more flexibility in allocation of IAs to audit engagements
- 🌐 If numbers justify, internal courses given by contractors
- 🌐 IIA certifications (CGAP & CIA) favored by EC Ex-Post Control directorates for study flexibility and minimum audit knowledge base
- 🌐 Staff motivated by obtaining international recognized certificate
- 🌐 Staff mobility increased from investment in training/certification

The disadvantages of international certifications are :

- 🌐 Unique working environment of EC means no certificate fully matches needs
- 🌐 IIA CGAP is good base but IAs need more advanced specialized certifications
- 🌐 Staff possibly demotivated to learn non-relevant EU knowledge
- 🌐 Staff turnover (exiting) in EC is low, so benefit of internationally recognizable certification is less attractive.

USING THE WORK OF THE IA IN SAI FINANCIAL AUDITING, SAI NETHERLANDS

In the Netherlands we, the NCA, believe that a strong internal audit service at the ministries is in the interest of management and board of the auditees (the ministries) and in the interest of us as SAI. Hence, we have a special relation with the internal audit function. On the one hand, we will always proclaim and defend the added value of the IA-function towards the line management and the board at the auditee's, on the other hand we scrutinize and judge the performed work of the IA, to assess and make sure that this work of the IA has the quality needed for us to be able to make use of it. This has led to a day-to-day practice in which we, as SAI, have unrestricted access to the electronic working files of the internal auditors and discuss the performed work in regular meetings with the auditors and top-management of the IA. Next to that we built on mutual trust and respect, in various platforms of cooperation, like in working groups on the implementation of the regulations on public procurement, or working groups in field of the use of data analysis and process mining, or pilots on application of blockchain technology or on introduction of methods of continuous monitoring and auditing. We conclude that a strong internal audit and strong cooperation SAI-IA benefits all.

SAI METHODOLOGICAL APPROACHES TO ANALYSIS AND CONTROL OF EFFICIENCY OF IA, SAI RUSSIAN FEDERATION

The mechanism developed for assessment and review of internal audit efficiency consists of two stages.

At the first stage the organizational structure of internal audit process is evaluated.

At the second stage the concrete results of internal audit are analyzed, first of all the results of the audits conducted by the subject of internal audit.

External audit conducted by the SAI of Russia last year revealed three major problems in the internal audit in the chief administrators, administrators of the budget funds:

- Low attention payed by the top-management of chief administrators, administrators of the budget funds to the problems of internal audit;
- Poor regulatory framework in the chief administrators, administrators of the budget funds (lack of internal standards);
- Low level of qualification of personnel performing internal audit.

RISK MANAGEMENT IN THE PUBLIC SECTOR, IIA SPAIN

Risk Management has been introduced in the context of the Formula 1. The main steps are :

1. Identify risks (COSO/ERM, Whistleblowing, incentives, IT controls,...)

2. Evaluation

- 🌐 Define common rules to assess risks
- 🌐 Evaluate likelihood and impact of risks
- 🌐 Indicators, KRI

3. Controls

- 🌐 Define controls
- 🌐 Evaluate the design and effectiveness of controls.

Examples have been shared for the approach for the Risk « lack of agility in the public procurement process ». The KRI can be the Impact: € for public procurement in one year. The likelihood is the number of contracts with processing time greater than XX days, or (%) number of contracts with processing time greater than XX days / total number of contracts.

NATIONAL COOPERATION AGREEMENTS BETWEEN SAIS AND IA IN EUROPE, SAI TURKEY

Aim of the presentation is to give an understanding of existing cooperation agreements between SAIs and internal auditors in the public sector among European countries. Upon gathering information from relevant sources, a structured overview of the cooperation agreements between SAIs and internal auditors in the public sector in Albania, Belgium Flemish Community, Bulgaria, Hungary, Lithuania and Moldova is presented. Furthermore, the presentation also includes a template of cooperation agreement which aims to guide both SAIs and internal auditors in the public sector who wish to establish their relationship through cooperation agreements.

MULTILATERAL NATIONAL COOPERATION AGREEMENT: WHY WE DID IT, WHAT WE ACHIEVED AND WHAT'S NEXT? SAI LITHUANIA

The cooperation between auditors conducting audits in the public sector was started and implemented with the essential purpose of helping to improve management in public sector, quality of both internal and external audit, and increasing public trust in auditors.

A formal Cooperation Agreement was signed between the National Audit Office of Lithuania, Institute of Internal Auditors, Association of Municipal Controllers and Lithuanian Chamber of Auditors in 2005. In 2010, the Ministry of Finance was included in cooperation agreement as one of the parties.

The Cooperation Programme was prepared for 2011-2015 and 2016-2020 covering in detail objectives to be accomplished as well as measures for their accomplishment, deadlines, and parties responsible for coordination of their accomplishment. The Cooperation committee was established to monitor the implementation of the Cooperation Programme.

During 1st period (2011-2015) different methodologies for assessment of public sector internal control, used by different auditors were reviewed and Guidelines for public sector entities on internal control establishment, operation, development and evaluation, that define the basic principles of internal control were developed followed by seminars, conferences-discussions; new portal launched providing information about audit in public sector, events in that area. Also, presentations and discussions were organized to share results of audits, information on audit methodology, auditors training systems, audit quality assurance systems.

During 2nd period (2016-2020) it is planned to organize conferences/ meetings with target groups on the importance of internal control and its place in the public management; organize conference/seminar for students of higher education institutions to present the significance, responsibilities and benefits of the auditor's role; familiarize with the programmes currently taught in higher education institutions and submit proposals for their upgrade (if needed); organize commemoration of the Auditor's Day; assess of maturity of the audit system segments (external audit, internal audit); continue sharing knowledge and good practices (focus on performance planning systems) in seminars and conferences.

THE NEW INTERNAL AUDIT IPPF (INTERNATIONAL PROFESSIONAL PRACTICES FRAMEWORK), ECIIA

These Revised Standards became effective January 1, 2017. The Implementation Guides to support updated IPPF have been issued. The New 2017 IPPF (Red Book) is available. The New IIA Quality Assessment Manual will be available 2Q 2017.

What is new ?

The Mission and definition of internal audit : “To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.”

The 10 new Core principles are:

- 🌐 Demonstrates integrity
- 🌐 Demonstrates competence and due professional care
- 🌐 Is objective and free from undue influence (independent)
- 🌐 Aligns with the strategies, objectives, and risks of the organization
- 🌐 Is appropriately positioned and adequately resourced
- 🌐 Demonstrates quality and continuous improvement
- 🌐 Communicates effectively
- 🌐 Provides risk-based assurance
- 🌐 Is insightful, proactive, and future-focused
- 🌐 Promotes organizational improvement.

The “concept” of the assurance map is an interesting tool to map the coverage of the risks and internal controls by the different “control” functions and by process. Implementation guides have been included in the IPPFs.

AUDIT COMMITTEES IN THE EUROPEAN PUBLIC SECTOR, IIA UK & IRELAND

In the UK, ACs are now recognized as key contributors to good corporate governance and the public sector has fully embraced their use and has developed guidelines and good practice for their operation across both central and local government.

The National Audit Office regards effective Audit Committees as key to helping public organizations achieve good corporate governance.

The primary purpose of an AC in the UK government sector is to provide the Board and/ or the Accounting Officer with independent assurance on the adequacy and effectiveness of the organization’s risk management framework, internal control environment and the integrity of the governance and financial reporting processes.

The scope of the ARC should be formally defined in Terms of Reference and include all the assurance needs of the Board; the ARC should have particular engagement with the work of Internal Audit, Risk Management, the external auditor, financial management and reporting issues. The ARC should communicate effectively with all key stakeholders, e.g. Board, CAE, external auditor, risk manager and other assurance providers.

Recommendations for the AC composition are: members should ideally be non-executives; executives invited to attend to provide information, explanations and take part in discussions; AC attended by both Internal and External Audit; Terms of Reference approved by the Board.

The results of the survey have been shared.

There are practical advantages of having AC and if EA and IA can demonstrate that working together may reduce costs with concrete examples, it is a good way to promote the AC.

PUBLIC SECTOR AUDIT COMMITTEES: EUROSAI SURVEY RESULTS, EUROSAI-ECIIA GENERAL CONCLUSIONS, SAI BELGIUM

Only a few jurisdictions present a more or less generalized and mature public sector audit committee (AC) configuration. For the remainder public sector AC are clearly limited to public enterprises, i.e. ‘market’ entities. The legal framework concerning public sector AC is very heterogeneous, reflecting national/regional characteristics of the public sector. The composition of public sector AC is very diverse; independent, external AC membership is not self-evident, even in mature public sector AC jurisdictions. The main roles and responsibilities of public sector AC and their relationships with internal audit are more or less similar. Reporting lines of public sector AC obviously depend to a large extent on the legal setup of the AC. Relationships of public sector AC with the SAI are in general not well established nor formalized. Only in a limited number of jurisdictions with public sector AC, their performance or effectiveness has been assessed; self-assessments obviously exist only in (some) mature public sector AC jurisdictions.

As we have noted for public sector internal auditing and SAI-IA relations in Europe (joint paper 2014), the public-sector AC landscape in Europe seems to be very diverse. Most jurisdictions would benefit from more international sharing of information on public sector AC. The crucial question remains whether political stakeholders (Parliaments, Governments, governing bodies) can be convinced of the added value of AC for their national, regional or local public sector. They will only get convinced if the (efficiency and) effectiveness of public sector AC is assessed and demonstrated. SAIs and public sector IA, obviously taking into account their national public law settings, may have a (bigger) role to play in this respect.

FUTURE EVOLUTION OF PUBLIC SECTOR AUDIT IN EUROPE, EUROPEAN CoA

Auditors face numerous challenges. Data is becoming easier to share and to search. Social media is increasingly dominant. AI is changing the way data is searched, classified and used. People expect information to be available sooner. The time-honored stately progress towards a bulky audit report no longer meets expectations.

For both SAIs and Internal Audit departments, providing insight is challenging because our staff can often spend long periods examining a small group of clients. The added value that comes from comparing the practice of a number of similar bodies is harder to achieve.

So exchanging experience is important. Conferences like this are an important way of doing this – but so too can be the exchange of people – either to work on one-off projects or for longer period.

The ECA tried this out in the recent report on the “Governance of the European Commission”, in which an internal auditor was brought into the team to look at the role of the commission’s audit committee. And the contributions of both the ECIIA and the Belgian SAI indicate that corporate governance is a fruitful area for future collaboration.

PROSPECTIVE VISION OF PUBLIC SECTOR AUDIT EVOLUTIONS IN EUROPE, IIA SPAIN

Key Internal Audit Priorities for 2017 are: Cyber security, Technology risks (mobile, cloud, etc.), Culture/soft controls, Crisis management planning, Vendor governance, Corporate governance, Regulatory compliance, Anti-bribery/anti-corruption.

The hot topics identified for the future collaboration are:

Governance: Good corporate governance is directly related to the value attributed to an organization by society and investors. We need to recognize that most problems in organizations have arisen due to weaknesses in their corporate governance.

Corporate culture: Organizational culture has become an issue of considerable strategic importance. Previously considered as an intangible concept, many organizations now manage indicators on talent, reputation, quality of service and even company revenue linked to corporate culture.

Fraud and corruption risk: In recent years, there have been a number of scandals across the globe, often leading regulators to intervene in order to protect stakeholders and the public interest, in turn contributing to an increasingly complex multi-national legislative environment.

Cyber-security: Cyber-security has become one of the priority risks facing organizations. Cyber-attacks are on the rise, are becoming increasingly sophisticated and have an enormous economic and reputational impact on organizations.

CONCLUSIONS OF THE JOINT SEMINAR, SEMINAR CHAIRMAN

The Seminar Chairman highlighted the exchange of ideas and knowledge, e.g. concerning risk management and training. A series of good practices were identified, e.g. ‘knowledge communities’ (Austria), bringing training down to the local level (Hungary), direct access of the SAI to the work papers of IA (Netherlands), an Auditor’s Day (Lithuania). The presentation of the surveys on national cooperation agreements between SAIs and IA and on public sector audit committees may be a stepping stone to involve the academic world. Possible themes for future cooperation were identified, e.g. reducing costs in the public sector, reducing certain risks e.g. related to cybersecurity, good governance in the public sector. On these issues cooperation may move from abstract to concrete cooperation projects.