



RAISING PUBLIC AWARENESS ON THE IMPORTANCE OF THE PUBLIC INTERNAL CONTROL SYSTEM IN THE REPUBLIC OF CROATIA

BY MARTINE THOUET

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**RAISING PUBLIC AWARENESS ON THE IMPORTANCE OF THE PUBLIC INTERNAL CONTROL
SYSTEM IN THE REPUBLIC OF CROATIA**

PIFC
or
New Public Management

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SYSTEM IN THE REPUBLIC OF CROATIA**

The New Public Management
is supported by a new tool:
The Public Internal Financial Control
PIFC

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For a sound financial management

Public Action increases from 1 objective to 3 objectives:

- From a **Former management**: with one objective- **Regularity**
- To a **New management** with 3 objectives

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The 3 objectives for the New Management are:

- **Compliance** with the law, regulations and international standards and best practices
- **Performance** in all its forms: 3E
Economy- Efficiency- Effectiveness
- **Security and Transparency: Traceability**

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Traceability is a key issue of the new management

Managers and budget users must follow all information and operations with a modern tool: the **Audit Trail**

New Public Management

- The New Administration must be effective, efficient and transparent
- PIFC system is based on International Standards and Best Practices
- The New Administration is organized on a New Approach:
 - Internal Control:FMC
 - Internal audit
 - Traceability- Security – Sustainability
 - Approach by Risks
 - Management oriented on Results

PIFC - a New Culture of Results

Turning back to the Old Practice

- The PIFC system takes into consideration:
 - The objectives to be achieved
 - The ressources- inputs
 - The realisations- outputs
 - The results obtained - the impacts
 - The quality of management
 - The accountability of managers

New objectives of the administration

The New Public Management approach:

- PIFC should support the administration to be more efficient and transparent
- PIFC should support the management to ensure the reliability of the accounting systems and the effectiveness of internal control systems

Further to ensure that legal forms are respected (regular) , the administration now seeks :

- effectiveness, performance and safety of funds collected and spent

The New Challenge

The new challenge of the financial administration is to define the objectives, to evaluate and to manage the risks:

- To reach the best results according to the objectives
- To evaluate the Performance and the Results according to indicative and reliable indicators

PIFC: Components

The Components of PIFC are :

- FMC: Financial Management and Control
- Internal Audit

Management and Control Systems

+

Internal Audit Service

PIFC: Means and Tools

- *Internal control: It is not a control, but a variety of means, implemented by the manager to master its management, to reach its objectives with a minimum of risk*
- *Internal audit: it is a consulting activity designed to help the manager to implement and maintain the quality of its internal control system*

Standards and Best Practices

- We often refer to « standards and internationally recognized good practices »

- **We must add: Best Practices**

Exemples: CHU, Olaf, Governance (some European and national models) ... and budget reform (LOLF in France)

Effects of Internal Control

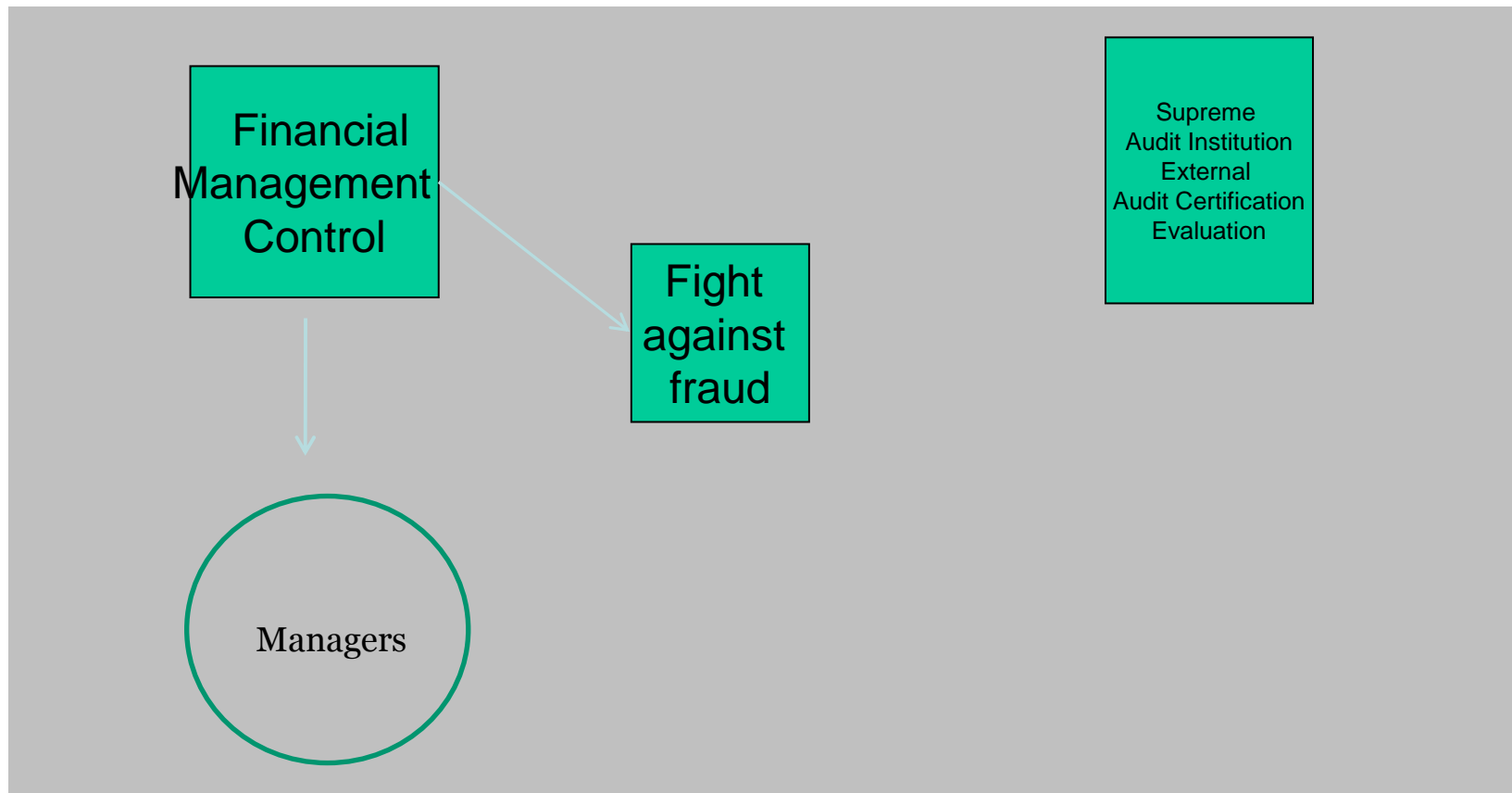
- In the PIFC system, the Internal Control provides to the manager a reasonable assurance, with a minimum of risks, to reach its objectives

PIFC - 2 Forms of Financial Management Control

The scope of internal control has *2 aspects based on the accountability of the Managers:*

- **Financial:** internal control for process, programming, accounting and budgeting systems
- **Management:** process, decisions, operations, achievements, risks, results, impacts, performance

PIFC and Internal Control Organisation



PIFC: Management of Internal Control and Internal Audit

WHO IS DOING WHAT?

CHU: higher audit - *BANDMASTER*

- To organize and to validate the PIFC system, the overall internal control system in the Croatian public sector.
- To suggest general recommendations to managers and internal auditors and to provide training
- Harmonization with norms and standards of manuals, guides, methodologies

The INSPECTION:

- Fight against fraud, but it is always clearly separated from the internal audit

The SAO: the Court of Auditors reports to Parliament and to the public. It implements all forms of control: financial audit, audit management and performance management, evaluation of programs and public policy.

What we should know

- PIFC includes a system of management and financial control ,but not only
- PIFC includes all system of management and *non-financial control*

Public Internal Financial Control

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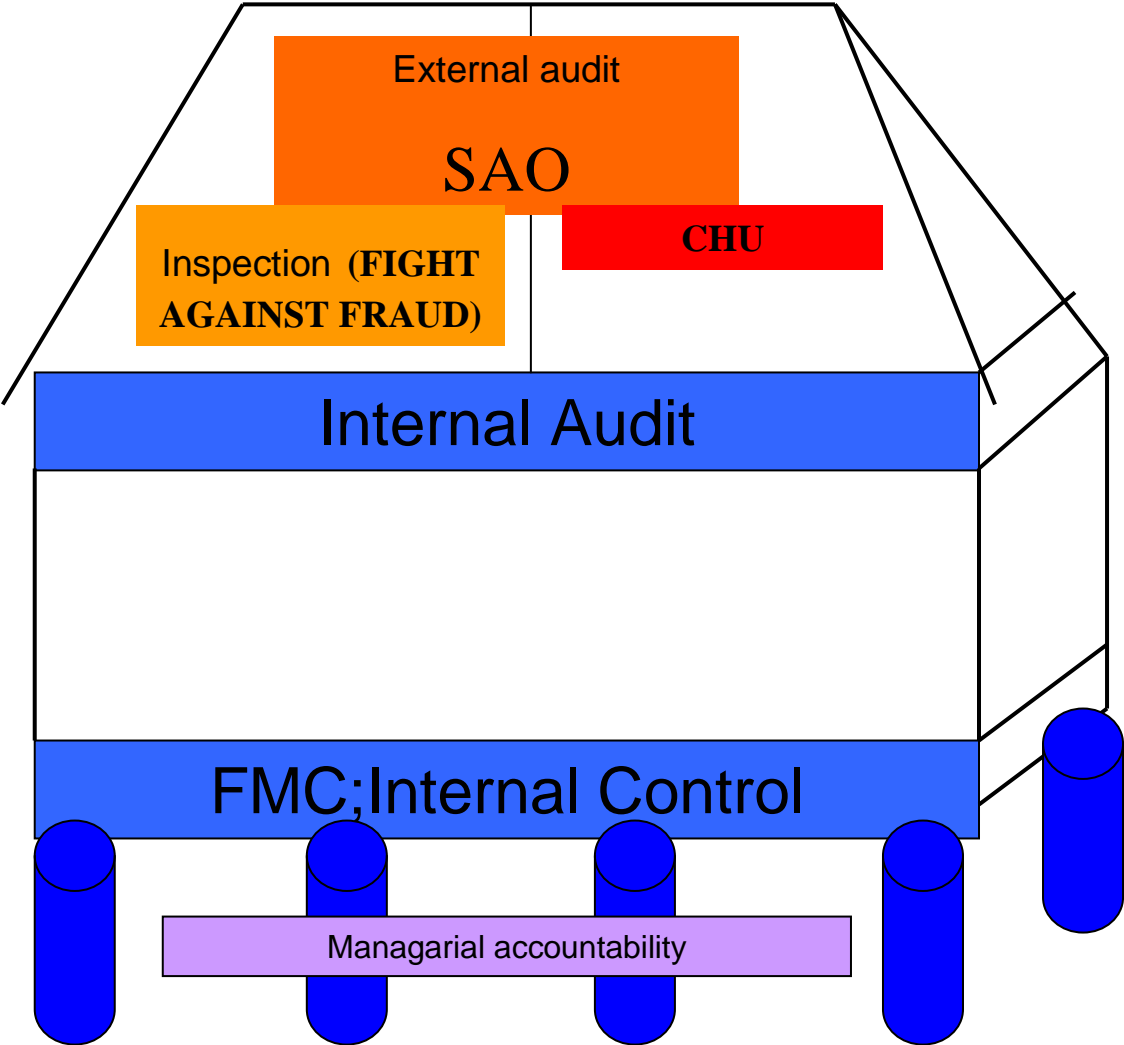
Management and Control Systems + Internal Audit Service

What we should know

•The key words in the new administration are:

- Managarial accountability
- Objectives
- Traceability - Transparency
- Risks
- Achievements - Results-Impacts
- Evaluation of the Performance
- Security
- Sustainability

To Build the PIFC Organisation



Best Messages : Internal Audit

- *Internal audit is not a control*
- Internal audit does not verify the operations
- Internal audit does not certify but assess
- Internal audit evaluate the systems
- Internal Audit is the opposite of verification
- Internal Auditor is not only a Financial Auditor .
- Internal auditor is an Advisor not a Controller

Best messages: Internal Audit

There are only 3 components of internal audit

- Compliance Audit – to assess the Regularity
- System Audit – to evaluate the efficacy of the Procedures
- Performance Audit – To evaluate Results

• *Financial Audit or Accounting Audit contribute to certification*

IT Audit, human resources Audit is the scope of Audit

But not an Audit Methodology

Best messages: Audit and Control

Audit is not control

- A System is a coherent set of means used to reach results
- Risk is any action or event that prevent the achievement of the objectives

Internal Control is a set of means implemented by the management to reach objectives .

- Manager, Chief executive officer ,Head of budget are in charge of the implementation of the Internal Control

Messages

PIFC

Must be understandable

Language - understandable

- The words « internal control » cause many misunderstandings
- For a clear understanding and correct concept of internal control, we need to have an understandable knowledge

The mistakes to avoid

To Put new words on former practices.

- The internal audit services are in place, the Auditors are trained ... but
- The functions and missions of Auditors and Inspectors have not changed
- The weaknesses of internal control systems and managerial accountability

PIFC: Shades...

*Control does not mean “to control”...
...and internal is not really internal!*

Misunderstanding...

In English: **Control = Management**

Exemple: Control the situation or
Control the ball



To control the situation!

For a football player: there is no question of checking the ball, its dimension, the quality of leather etc.

- The player guide the ball and has to be the master of the game

For the Manager:

- His role is to manage the financial systems, to be able to lead (well), achieving the objectives and to reach results with minimum risk

New approach and controls

- ***3 types of control:***
 - Internal Audit- Internal control- Inspection
- **3 types of Functions**
- **3 Jobs**
 - Internal Audit = Recommendation
 - Internal control = Managing the risks- Traceability- Regularisation
 - Inspection = Sanction

New approach and Internal Audit

To evaluate the Performance

- **3 types of Internal Audit:**
 - Compliance Audit :Audit of regularity
 - System Audit: Audit of the Process
 - Performance Audit :to evaluate the results based on the indicators
- 3 «E» economy inputs/outputs - effectiveness- efficiency

Objectives – Risks - Controls

A fundamental sequence:

OBJECTIVES > RISKS > CONTROLS= RESULTS

- «Controls» are the actions or provisions implemented by the managers to limit the risks to reach the objectives

FMC and Risk Management

The Managers must implement a permanent Risk Management

- To identify the risks
- To evaluate and measure the risks
- To implement sufficient controls to avoid and manage the risks

Definition of Internal Control

Internal control is a set of means (whatever they are) implemented by the Manager ,under his responsibility, to achieve its objectives with a minimum risk (failure)

Audit trail and implementation of FMC

- *The audit trail is a tool for the manager to implement the internal control system*
- The Key function is the Traceability
- The Manager is responsible for the elaboration of the audit trail.
 - WHO (actors) is doing:
 - WHAT(activities)
 - WHEN(procedures-systems-controls)
 - WHERE (risks)
 - WHY(objectives)
 - HOW(process)

Audit Trail and Internal Audit

The Internal auditor evaluate the audit trail:

Governance- Risks management - process of internal control

WHO-WHAT -WHY-WHEN-WHERE-HOW

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Findings and recommendations

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Control Trail

The 3 jobs of « Control »

| | Inspection/ verification | INTERNAL AUDIT | INTERNAL CONTROL |
|-------------|-------------------------------|--------------------|---------------------------|
| Planning | Secret | Planning | Permanent |
| Position | External/higher | Internal | Integrated |
| Scope | Operations/human resources | Systems Results | Gestion |
| Goals | Regularity FRAUD | Efficacy | Security- Transparency |
| Methodology | Guide of verification | Normes-Standards | Guides-manuals |
| Actions | Sanctions | Recommandations | Action Plan |

The 3 jobs of « Control »

| | | | |
|------------|--------------------------------------|--------------------------------------|-------------------------|
| | Inspection (tradition FAF) | Audit (internal or higher) | Internal control |
| JOB | Police | Consultant Expert | Manager |

The parable of 3 bridges

Question: which is the most expensive ?

- The construction of a bridge, despite the fulfillment of certain legal rules (poor TOR, irregular commissions etc.)
- A bridge whose cost is 2-3 times the price? although all procedures were followed
- A bridge, even built in the same shape and at the right price but which is useless?a bridge to nowhere ,no river,no water etc.....

The parable of 3 bridges

1st case : We speak about Regularity Control

2nd case: We speak about Budgeting Control

3rd case : We speak about Performance Audit and Risk
Management

FMC and Documentation

- Fonctionnal organigramme
- Hierarchic organigramme
- Job description
- Strategic plan
- Process
- Audit trail
- Flowcharts
- Guides
- Manuals
- Code of Ethics

The pillars of PIFC

How to recognise a PIFC system?

The pillars of PIFC

- The pillars are:
 - A system of planning, programming ,accounting and budgeting
 - Audit trail for traceability is used by the managers
 - Risk management is implemented and regulary updated
 - Internal audit is fonctionning
 - Monitoring of Results
 - Evaluation of Performance

A methodology for the implementation of PIFC

The word «approach» means that it is not a rigid methodology

... but

- a general reasoning and creativity that each service can adapt to their own context.
- This approach results from the crossing of the basic formula

Objective > Risk > Control = Results