



A joint initiative of the OECD and the European Union,
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Key challenges in building efficient PIFC systems

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"Height and position? I'm six
foot tall and in the pilot's seat!"

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Internal control (IC)

A set of **management arrangements** designed to deliver the objectives of an organisation on time, to performance standard, within budget, efficiently, effectively and in compliance with the law.

Public internal control (PIC)

Description of the rich variety of internal control systems used in the public sectors of the EU-28.

Public internal financial control (PIFC)

Internal control framework for the public sector, composed of three pillars: financial management and control system, internal audit, and CHU.



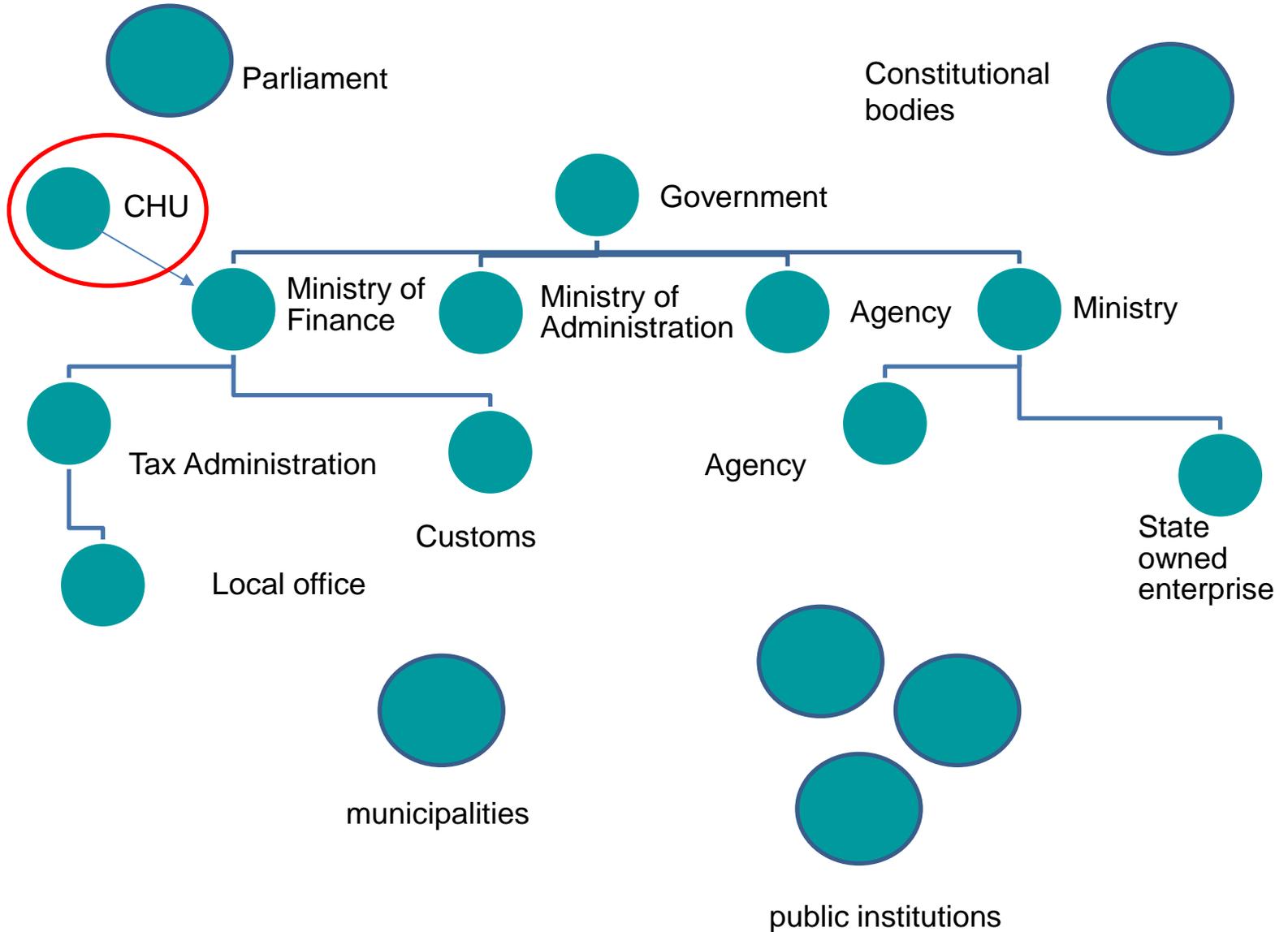


CHU Internal auditor DG Budget	Minister of Finance Budget Department State Audit Office	Minister State Secretary Head of Agency Mayor Chairman of the Board
PIFC	Cost efficiency	Variety of objectives
COSO Model	Compliance	Variety of management styles and methods
Risk register	Expenditure limits	Variety of organisational cultures, work ethics
Managerial accountability	Procedures	Accountability
FMC Manager	Anti-fraud/ corruption	



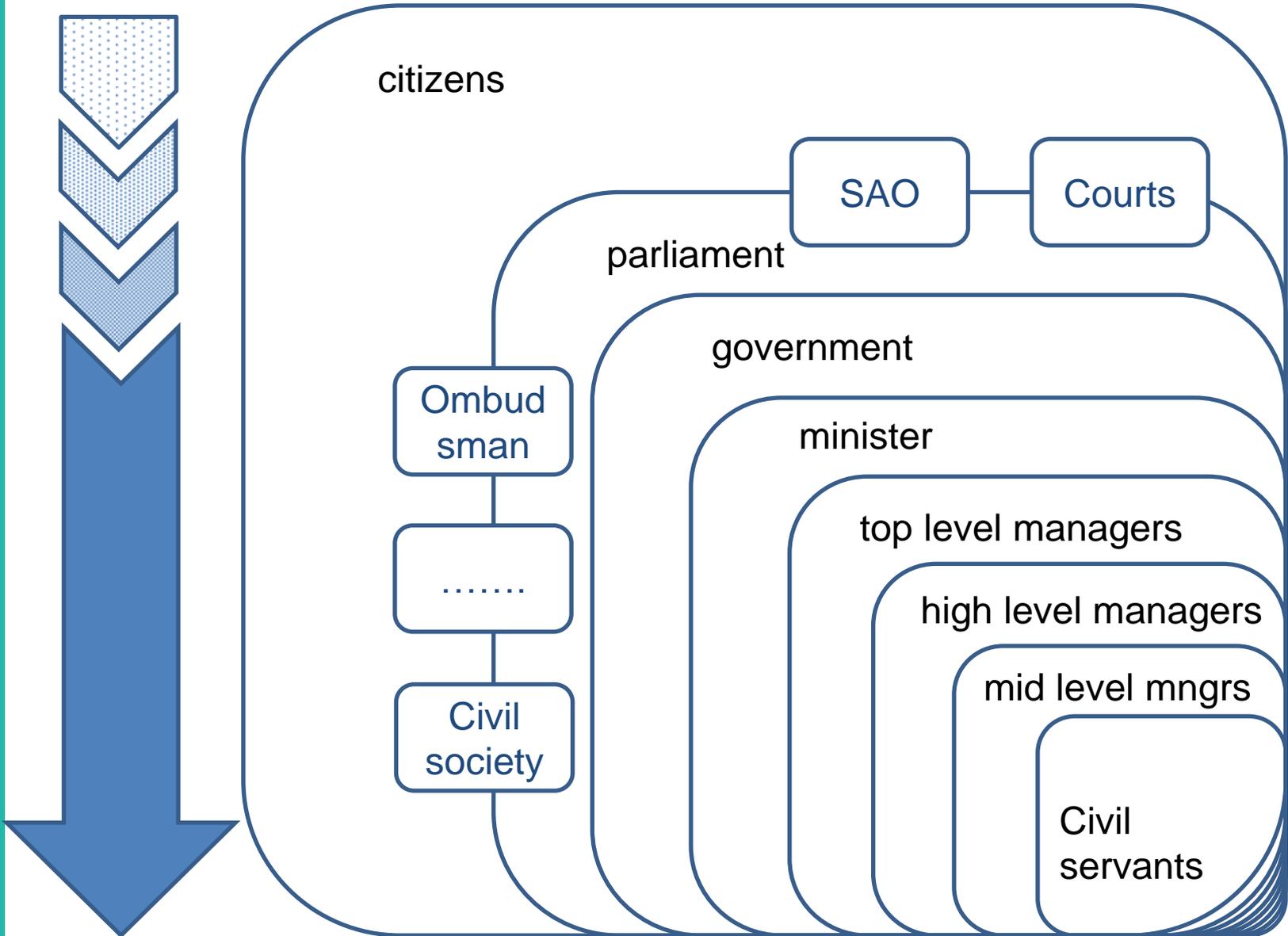


State level obligation, decentralised implementation, mid-level co-ordination





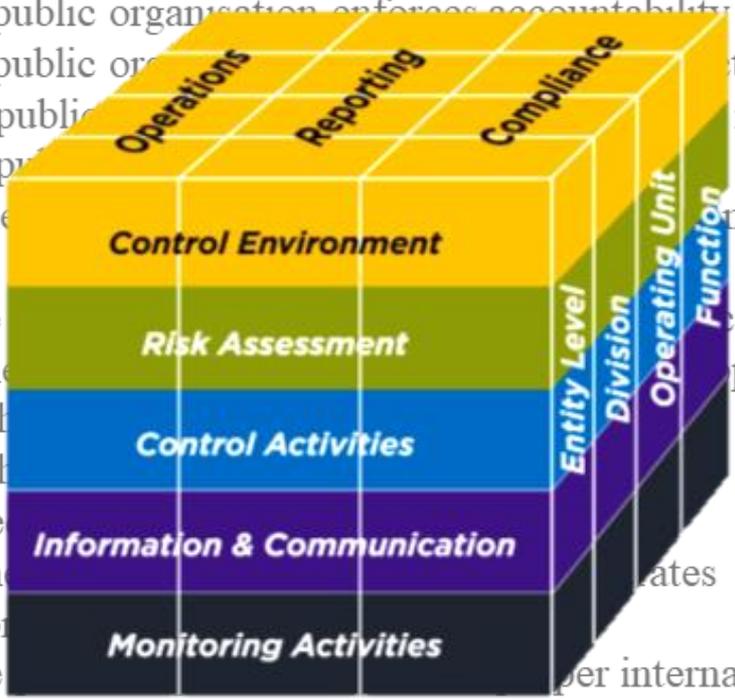
Weak/broken accountability chain





COSO Model

- Principle 1:** The public organisation demonstrates a commitment to integrity and ethical values
- Principle 2:** The public organisation exercises oversight responsibility
- Principle 3:** The public organisation establishes structures, reporting lines, authorities and responsibilities
- Principle 4:** The public organisation demonstrates commitment to competence
- Principle 5:** The public organisation enforces accountability
- Principle 6:** The public organisation identifies and assesses business objectives
- Principle 7:** The public organisation identifies and assesses risk
- Principle 8:** The public organisation identifies and assesses significant changes
- Principle 9:** The public organisation identifies and assesses significant changes
- Principle 10:** The public organisation identifies and assesses significant changes
- Principle 11:** The public organisation identifies and assesses significant changes
- Principle 12:** The public organisation identifies and assesses significant changes
- Principle 13:** The public organisation identifies and assesses significant changes
- Principle 14:** The public organisation identifies and assesses significant changes
- Principle 15:** The public organisation ensures proper external communication
- Principle 16:** The public organisation selects, develops and performs ongoing and/or separate evaluations
- Principle 17:** The public organisation evaluates and communicates deficiencies





Internal control – management - FMC

- (a) effectiveness, efficiency and economy of operations;
- (b) reliability of reporting;
- (c) safeguarding of assets and information;
- (d) prevention, detection, correction and follow-up of fraud and irregularities;
- (e) adequate management of the risks relating to the legality and regularity of the underlying transactions

- (a) segregation of tasks;
- (b) an appropriate risk management and control strategy;
- (c) avoidance of conflict of interests;
- (d) adequate audit trails and data integrity in data systems;
- (e) procedures for monitoring effectiveness and efficiency;
- (f) procedures for follow-up of identified internal control weaknesses and exceptions;
- (g) periodic assessment of the sound functioning of the internal control system.





Starting point

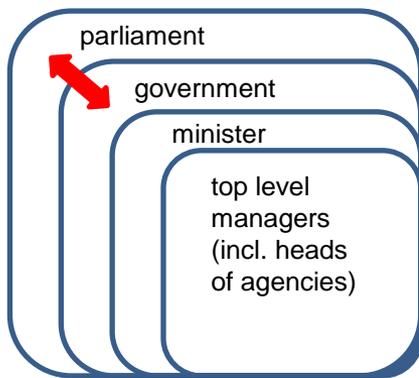
Determination of top level management (*parliament and government for the country, head for the institution*)

Good understanding of the concept and its **flexibility**

...and it depends upon:

- Delegation of responsibilities and authority, clarity of objectives, performance standards and measures of performance;
- Procedures and rules adequate for the country and for the institution;
- The existence of 'trust' between the key actors and stakeholders.



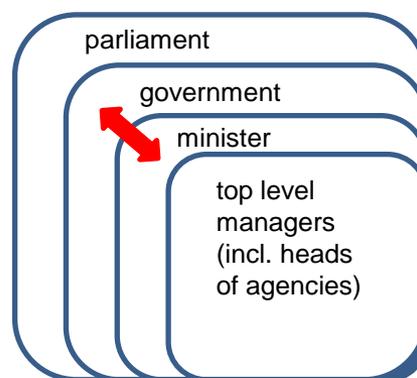


Insufficient
parliamentary
oversight

Agencies reporting
directly to
parliament

Limited recognition
of SAO work

Lack of
transparency



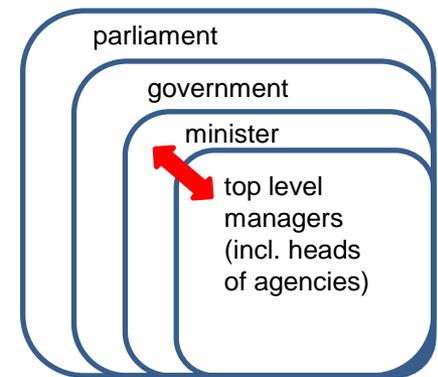
Insufficient strategic planning
Insufficient policy co-
ordination

No result – based planning/
monitoring / reporting

Lack of coherency between
strategic and financial
planning

Low level decisions brought to
the governmental sessions

Bypasses in the organisation
of administration (e.g. minister
has no influence on the
budget of supervised agency)



Lack of objectives for
managers

Unclear division of
tasks

Lack of delegation of
authority

Inadequate resources

Insufficient planning/
monitoring/ reporting

Operational decisions
brought to the
strategic level

Bypasses in the
managerial structure





Key factors of success

Tone (and consensus) at the top

Honest self-assessment

Adequate risk analysis and tailored response

Comprehensive PIFC Policy

Focus on the implementation

Continuous maintenance of the system





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