

Report

Internal Control and Internal Audit:

Ensuring Public Sector Integrity and Accountability



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Report prepared in the context of celebrations for the 50th Anniversary of the OECD

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This report has been prepared to provide the basis of discussions at a Seminar being held as part of events linked to the 50th Anniversary of the Organisation for Economic Co-operation and Development (OECD). The objectives of this seminar are to gather experience from, and to debate on the challenges with, public officials working on internal control and internal audit, representatives of professional associations, and experts on integrity and the prevention of fraud and corruption.

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Glossary and Acronyms

Audit Committee	An audit committee is comprised of members independent of the entity’s executive management, and is responsible for the independent review of internal control, risk management and the internal audit function, including the monitoring of the independence of the internal audit function.
Code of conduct/code of ethics	Citizens expect public servants to serve the public interest with impartiality, legality, integrity and transparency on a daily basis. Core values guide the judgment of public servants on how to perform their tasks in daily operations. To put these values into effect, organizations will establish written, formal codes of behavioural standards. They can set out in broad terms in a code of ethics (or code of conduct) those values and principles that define the professional role of public servants – integrity, transparency etc., or they can focus on the application of such principles in practice – for instance, in conflict-of-interest situations, such as the use of official information and public resources, receiving gifts or benefits, working outside the public service and post public employment. Ideally, codes combine aspirational values and more detailed standards on how to put them into practice.
Conflict-of-interest policy	A conflict-of-interest policy provides guidance on what constitutes a conflict of interest, how potential conflicts can be managed, as well as what are the due processes for resolving an actual conflict.
Corruption	Corruption involves effort to influence and/or the abuse of public authority through the giving or the acceptance of inducement or illegal reward for undue personal or private advantage
External Audit	External audit is an external and independent activity designed to provide an opinion on the compliance of financial statements with accounting rules and regulations, and on the fact that they give a true and fair image of the reality. The certification of financial statements is a legal requirement. In the public sector, external audit is usually performed by Supreme Audit Institutions (SAI).
Fraud	Fraud involves deliberate misrepresentation of facts and/or significant information to obtain undue or illegal financial advantage. It may be internal, i.e. originate from within the organization, or external, i.e. involving customers, suppliers, or other third parties.
Gift and gratuities policy	A gift and gratuities policy provides guidance on whether gifts/gratuities can be received, what is prohibited, and under what conditions.

IFACI	The Institut Français de l’Audit et du Contrôle Internes is the French Institute of The IIA.
Independence (*)	The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.
Internal Auditing (*)	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.
Internal Audit Charter (*)	An internal audit charter is a formal document that defines the activity’s purpose, authority and responsibility. It establishes the activity’s position with the organization; authorizes access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
Internal Control	<p>Internal control has been broadly defined by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO – www.coso.org) in “Internal Control – Integrated Framework”, as:</p> <p>...“a process effected by an entity’s board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:</p> <ul style="list-style-type: none">• Effectiveness and efficiency of operations;• Reliability of financial reporting; and• Compliance with applicable laws and regulations.”
INTOSAI	The International Organization of Supreme Audit Institutions (INTOSAI) is a worldwide affiliation of governmental entities. Its members are the chief financial controller offices of nations. INTOSAI is an autonomous, independent and non-political organisation. It is a non-governmental organisation with special consultative status; it operates as an umbrella organisation for the external government audit community. It has provided an institutionalised framework for supreme audit institutions to promote development and transfer of knowledge, improve government auditing worldwide and enhance professional capacities.
Investigation	A fraud or corruption investigation consists in evidencing the existence, or not, of a fraud or a case of corruption, based on allegations and suspicions. To achieve this objective, specific procedures are performed to determine whether the fraud / corruption occurred, who was involved, the fraud scheme, losses and consequences. Allegations are expressed, based on referrals from witnesses on wrongdoing suspicions or on alerts and red flags identified with detective controls. When a fraud or a case of corruption occurs, evidences are gathered for a legal proceeding.

IPPF (*)	<p>The International Professional Practices Framework (IPPF) is the conceptual framework that organizes the authoritative guidance, either mandatory or strongly recommended, promulgated by The IIA.</p> <p>The IPPF refer to it in the Report as The Standards)comprises :</p> <ul style="list-style-type: none"> • The definition of Internal Auditing • A Code of Ethics • Internal Standards for the Professionnal Practice of Internal Auditing • Position papers, practice guides and practice advisories
Minister	<p>The term “Minister” has been employed as a generic word to designate the person responsible for the “Ministries” in the different sampled countries, such as Head of National Department, Secretary of State, Permanent Secretary, Secretary (...).</p> <p>In this report, the Minister and the Deputy Minister are considered as the highest authority within the Ministry.</p>
Ministry	<p>The term “Ministry” has been employed as a generic word to cover all the terminologies used in the different sampled countries, such as Central Government Administration, Agency, National Department, Federal Ministry, Central Administration (...).</p>
Overall opinion	<p>An overall opinion is an opinion on the overall adequacy of the organisation’s policies, procedures and processes to support governance, risk management, and internal controls, and is generally based on the results of multiple auditengagements.</p>
Risk Management (*)	<p>A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives.</p>
The IIA (*)	<p>Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association. The IIA is the internal audit profession’s global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. Members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.</p>
Whistle blowing	<p>Whistle blowing is where a person raises concern about wrongdoing occurring in an organization. Usually this person would be from that same organization. The revealed misconduct may be classified in many ways; for example, a violation of a law, rule, regulation and/or direct threat to public interest, such a fraud, health/safety violations, and corruption. Whistleblowers may make their allegations internally (for example, to other people within the accused organization) or externally (to regulators, law enforcement agencies, to the media or to groups concerned with the issues).</p>

(*) Definition provided by The Institute of Internal Auditors (The IIA)

Country Codes

AUS	Australia
BRA	Brazil
BGR	Bulgaria
CAN	Canada
FIN	Finland
FRA	France
JPN	Japan
NLD	Netherlands
ZAF	South Africa
SWE	Sweden
GBR	United Kingdom
USA	United States

Core messages of the report

Introduction

1. This report has been prepared as the basis of discussions at a Seminar being held as part of events linked to the 50th Anniversary of the Organisation for Economic Co-operation and Development (OECD). Its objectives are to gather experience from, and to debate on the challenges with, public officials working on internal control and internal audit, representatives of their professional associations, and experts on integrity and the prevention of fraud and corruption.

2. The public sector needs to ensure integrity, transparency, and accountability. Calls for government transparency and accountability have increased following the financial and economic crisis. The scale of government intervention and spending that the crisis has induced, have placed integrity at the core of the good governance agenda worldwide.

3. Moreover, the role of internal control and internal audit in preventing corruption is recognised in international conventions against corruption. All countries participating in the survey are parties to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the United Nations Convention against Corruption. Others are part of regional conventions such as those under the Council of Europe Group of States against Corruption and Organisation of American States.

4. As part of the OECD General Secretariat, Internal Audit reports directly to the Secretary General, and to an audit committee comprising representatives from permanent delegations, and experts from the Supreme Audit Institutions of Member countries. As mandated in the Financial Regulations, and through adherence to the Standards of The IIA, it provides both with an evaluation of the effectiveness of the Organisation's risk management, control, and governance processes, including advisory services to the Secretary General and management.

5. The OECD Public Governance and Territorial Development Directorate focuses on developing best practices related to enhancing integrity and preventing corruption within the public sector, including in relation to public procurement and lobbying in public decision making. Over the past 15 years it has developed an Integrity Framework for assisting policy and decision makers to foster integrity and prevent corruption within the public sector. This Framework focuses on:

- Understanding the implementation of instruments, processes, and structures to support; *i*) the delivery of quality services in an efficient manner, in accordance with planned outcomes; *ii*) safeguard public resources against misconduct and (active and passive) waste; *iii*) maintain, and disclose through timely reporting, reliable financial, and management information; and *iv*) comply with applicable legislation and standards of conduct.

Understanding the implementation of integrity instruments, processes, and structures at the level of individual public organisations and not government as a whole; and developing actionable data and benchmarks to measure the functioning of integrity systems and guide implementation.

- The Integrity Framework also serves as a basis for a series of voluntary OECD peer review on integrity in the public sector. To date reviews have been conducted on Brazil, Greece, the Middle East and North Africa, and the United States. In 2011, a further three such reviews are to be conducted in Mexico.

6. The *Institut Francais de l'Audit et du Controle Interne* (IFACI - www.ifaci.com), as the professional association for internal audit in France, conducts ongoing research on internal control and internal audit including that related to the public sector. IFACI is the French Institute of the international Institute of Internal Auditors (The IIA – www.theiia.org), the internal audit profession's leader in certification, education and research. The Institute's International Professional Practices Framework ("IPPF" or Standards) constitute authoritative guidance comprising Code of Ethics, and attribute and performance standards for the practice of internal auditing. Its network of internal auditors in France, Europe, and internationally has served as an invaluable contribution to the Seminar by assisting in obtaining and sharing information on current internal audit practices in ministries, departments, and agencies (hereafter "ministries") in their respective countries. Its Standards are referred to where relevant to the specific themes in this report.

7. Internal Audit is also the subject of Standard 9140 of the International Organisation of Supreme Audit Institutions (INTOSAI), "Internal Audit Independence in the Public Sector", and Standard 9150, "Co-operation and Co-ordination between SAIs and Internal Auditors in the Public Sector". Through its Internal Control Standards Committee and guidelines specific to internal controls in the public sector, INTOSAI emphasises the value of independent and objective auditing; it distinguishes the role of audit in evaluating controls from the role of management in implementing specific internal control procedures. INTOSAI operates as an umbrella organisation for the *external* government audit community and therefore its practices and standards do not form part of this study, however it is intended that this paper will complement them.

8. The issues presented in this report build upon an OECD survey on internal control, internal audit, and integrity conducted in 2010. It is the first OECD survey focusing specifically on internal control and internal audit in central public administrations. Through the survey, data was collected from 73 ministries across 12 countries. It shows how professional standards, internal control systems, and internal audit activities currently help strengthen accountability and integrity in the public sector. As a result, improvements are proposed regarding prevention, detection, and reporting of fraud and corruption (F&C). This report is conceived as a toolkit comprising nine sections, each concluding with proposed best practice. It is proposed that considering these sections and conclusions together, as opposed to each individually, may best enhance IA contribution to integrity, transparency, and accountability.

9. The methodology for the survey instrument and compilation of this report is outlined in Annexes A to B: this report has been compiled based on responses of the internal audit (IA) functions in surveyed ministries, and both the report content and the country profiles have been verified by the country coordinators (see methodology). None of the views expressed in this report represent the official position of any country, and the anonymity of surveyed ministries in the 12 surveyed countries has been respected throughout.

Summary of key findings and proposed best practices

The reporting line of IA to the highest authority within the ministry

10. The majority of respondents (75%) state that IA reports to the highest authority within their ministry. This type of reporting line is ranked as the second most important criteria to improve the contribution of IA to preventing, detecting, and reporting F&C.

11. A reporting line to this level provides IA independence in the definition of its work plan, the execution of its work, and the transparency of its reports. This condition is even more important concerning the prevention, detection, and reporting of F&C. It increases the capacity of IA to have access to relevant information and resources, and to co-ordinate its activities with internal control, external audit and/or investigation functions.

Existence and independence of the Audit Committee

12. Based on best practices in corporate governance, the existence of an audit committee can strengthen IA independence and the overall transparency of an organisation. 46% of the surveyed ministries declared the existence of an audit committee, the independence of which varies according to the country. When an audit committee exists, its mandate should clearly cover the monitoring of risks exposure, including those relating to F&C. There should be periodic reporting of cases of F&C to the audit committee. In addition, practices show that, to be “independent”, the majority of audit committee members should be recruited from outside the ministry, and ideally some from outside the public administration.

Internal Audit F&C mandate: mutual support and co-operation with other functions with F&C responsibilities

13. Three scenarios emerge: *i)* where both IA and F&C investigation functions exist together under the same head; *ii)* where both exist as separate entities but within the same ministry; and *iii)* where both exist as separate entities but, in some ministries, the F&C investigation function exists outside the ministry. Irrespective of the organisational structure of F&C, the two functions must optimise the use of resources and mitigate the risk of non pursuit of control deficiencies.

14. In the case of separate functions, recommended practices are as follows:

- A clear mandate for each function with working and co-ordinating policies/rules to avoid duplication;
- Systematic and timely information to IA on any case of F&C;
- A feedback from IA to the other functions on internal control (IC) weaknesses and the progress on corrective action plan;
- Regular meetings for co-ordinating work programmes and findings (including annual reports); and
- Joint training / F&C risk awareness initiatives

15. A dedicated F&C Investigation function does not mean that IA does not have any responsibilities in this field. As advocated by the Standards, the IA mandate should expressly include evaluation of “the potential for the occurrence of Fraud and how the organisation manages Fraud risk”. The mandate of IA

must clarify this role for each step of an effective anti-fraud or anti-corruption process (prevention/ detection/ investigation/ improvement from lessons learnt).

Strengthening Risk Management culture, including Fraud Awareness or F&C Prevention Plan

16. 91% of respondents state that they have adopted an internal control framework (ICF) comprising control activities, control environment, risk assessment and monitoring. Yet F&C cases are of course captured not solely via financial controls, but also via the wider control environment of “soft controls” including Codes of Ethics/Conduct and F&C Prevention Plans. The existence of a formal and comprehensive ICF is ranked as the most important for the enhancement of IA contribution to preventing, detecting and reporting F&C.

17. The involvement of management is a key component of any effective internal control and risk management system: 87% of respondents state that management is assigned responsibility for internal control; 84% for risk management; decreasing to 75% for the prevention of F&C. Thus IA has a key role to play in advocating the formalisation of an internal control and risk management framework going beyond purely financial controls, but also to the wider environment including code of ethics/conduct and F&C prevention plans.

Internal Audit Mandate

18. A clear definition of the authority and responsibilities of IA in its mandate empowers IA in its interaction with auditees and External Audit. 44% indicate that there is at present **no reference** in their mandate to fraud; and for corruption this figure amounts to 58%.

19. For those surveyed countries or ministries in which IA and F&C Investigation do not exist under the same Head, it is recommended that reference to F&C risks be explicitly included in the IA mandate.

20. Where the reference to F&C risks already exists, adding a clear reference to the Standards may help to strengthen IA in this field. The Standards specifically include reference to fraud but not corruption. Survey responses have shown that the reference to fraud does not automatically include corruption. It is therefore advisable that explicit reference to corruption be included in any future update of the Standards.

Assessment of the effectiveness of the ministry’s system for the mitigation of F&C risk

21. The IIA advocates that the IA activity should “report periodically to senior management and the board ...”, and that such reports should include “significant risk exposures and control issues, including Fraud risks...”. 44 % of respondents indicate that having fraud specified in the mandate is not sufficient for IA to engage in such activities. The same observation can be made in the case of performing work specifically to detect corruption (only 15 % of IA involvement in performing specific work to detect corruption).

22. 62% of surveyed ministries acknowledge the existence within their entity of an “Anti-Corruption Policy” (i.e. a framework for prevention and sanction of Corruption). Such a framework could be used for compliance audit and may form the basis for IA assessment of the effectiveness of the policy.

23. Some countries have a “Fraud Control and Corruption Prevention Plan”, including provision of a rating of F&C risks, with accompanying action plans to mitigate related risks. This type of plan can increase IA coverage of F&C risks.

Inclusion of measures for the prevention and detection of F&C in the Internal Control Framework; contribution of a sound ethics framework

24. A fully fledged and unified internal control framework, with a strong emphasis on ethics awareness and training, is necessary for any anti-fraud or anti-corruption process.

25. The fact that 44 % of surveyed ministries indicate knowledge of intentions to strengthen the ICF in their ministry indicates an opportunity for IA to make recommendations for specific controls to better address the risks of F&C.

26. The recommendations that IA may make should take into account existing tools:

- the survey shows that, according to IA functions in 88 % of surveyed ministries, there exists a code of ethics/conduct, either for the ministry or as a whole of government policy;
- 77 % confirm the existence of ethics training or awareness initiatives;
- 82 % state that they have a conflict-of-interest policy; and
- 45% mention the existence of managers’ assertions, mainly linked to some form of financial statements certification.

27. Other practices could be:

- A systematic and periodic assessment of the control environment of the different units of the ministry and affiliated agencies.
- In conformance with the Standards (the duties of IA include to “evaluate the design, implementation, and effectiveness of the organisation’s ethics-related objectives, programmes and activities”): periodical audits performed of the design and quality of the framework; recommendation for establishing and strengthening the field of ethics/integrity, conflict-of-interest policy and/or managers’ assertions.
- The implementation of an ‘Integrity Barometer’.

Enhancing Internal Audit capacity to contribute to the prevention and detection and reporting of F&C

28. IA must have appropriate professional qualifications in order to be able to evaluate F&C risks, and to detect F&C alerts as part of the execution of the work plan. Even if there is a separate function with specific F&C competencies, IA can increase its role in preventing, detecting and reporting F&C by possessing most of the competencies related to audit issues in the function, notably accounting, finance and IT. IA can thus have a more exhaustive overview of the process.

29. This involvement of IA can take place at an individual level with professional internal auditors complying with the Standards and the code of ethics/conduct of their profession. However to add real value, IA must be collectively professional with adequate rules and policies and an effective quality assurance programme.

The way forward

30. The results of this survey will feed into OECD activities, including Public Governance Reviews, and will complement OECD work on external audit at the national level for its project, Government at Glance. Externally, they should complement the activities of the previously mentioned standard-setting bodies, The IIA, and INTOSAI.

31. It is hoped that this report will open the way for future work and generate more exploration of ways in which, for the public sector, and, as advocated by The IIA, IA may enhance its contribution to improving the effectiveness of an organisation's risk management, control, and governance processes, including the prevention, detection and reporting of F&C.

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Chapter 1: Governance

Section 1.1 - Internal audit reporting line: a key factor impacting its independence

To what extent does a clear internal audit reporting line to the highest authority within the ministry contribute to the effectiveness of internal audit in preventing, detecting and reporting fraud and corruption?

Link to theme

32. The reporting line of internal audit (IA) defines the body/ person to whom IA is accountable and to whom its outputs, which are mainly the annual work plan and its reports, are primarily communicated. It also defines IA authority to access staff and information, which is particularly important regarding fraud and corruption (F&C) issues. It is clear that the level of the body/person to whom IA reports impacts upon its independence¹, notably regarding the definition of its work plan, the execution of its work, and the transparency of its reports. This is even more important in the case of reporting F&C.

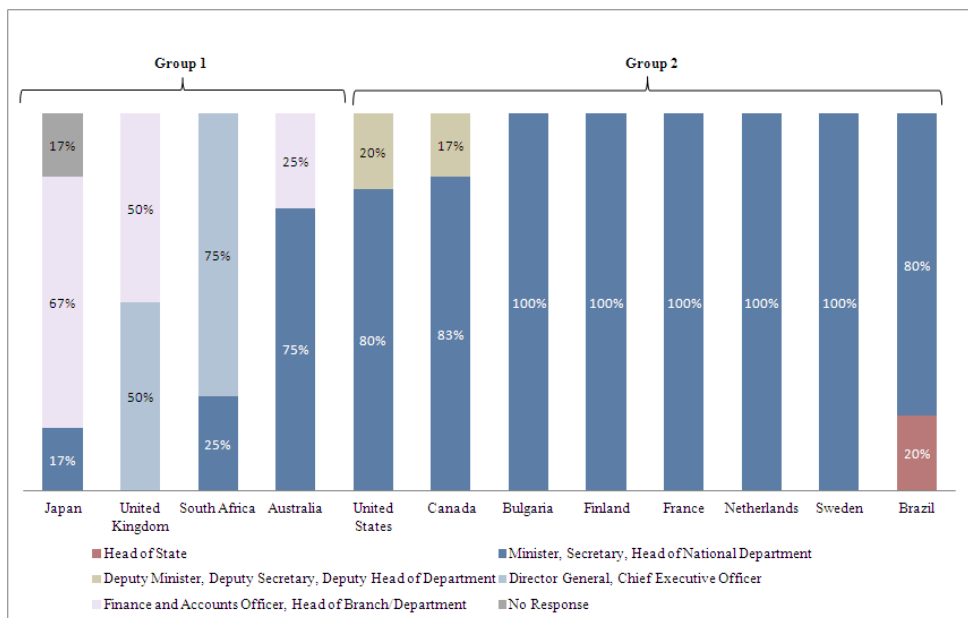
Global results from the survey

33. Most participating ministries, i.e. 75% (55 respondents out of 73), declare that IA reports to the highest authority within their institutions. Among the remaining 25%, 17 responded that their IA function does not report to this highest level² and 1 did not respond.

Specific country cases

34. Figure 1 summarizes the responses received per country regarding IA reporting line.

Figure 1. Internal audit reporting line



¹ This term is defined in the Glossary.

² This term is defined as part of the definition of “Minister” in the Glossary

- **Countries in which internal audit reports to an intermediate level of authority within the ministry**

35. In this first group of countries, comprising **Australia, Japan, South Africa** and the **United Kingdom**, IA services of participating ministries do not systematically report to the highest authority within the ministry.

36. In **Japan**, the majority of participating ministries (4 out of 6) state that their IA services are part of the Budget and Accounts Division, and do not report to the highest level of authority within the ministry. In addition, 2 IA services have some executive responsibilities, since they are in charge of accounting as well as IA activities. In such a governance structure, IA independence may be questioned, notably for those audits carried out in the Accounts Division.

37. In **Australia, South Africa** and in **the United Kingdom**, the IA services of most participating ministries have no executive responsibilities within their institution, and state that they are free to establish their work plans. This contributes to IA independence.

38. In the **United Kingdom**, two practices co-exist regarding the reporting line of IA: in 3 out of the 6 surveyed ministries, the head of IA reports either to the Permanent Secretary or the Chief Executive, who both then report to the Secretary of State. In the remaining 3, the head of IA reports to a lower level, namely to the Director General of Finance and Commercial or the Director of Finance. Whereas 2 of these ministries clearly mention that Directors cannot interfere in IA's work plan, the remaining ministry states that IA's work plan is subject to the review and approval by the Accounting Officers, which mitigates auditors' independence.

39. In 3 (out of 4) **South-African** and in 1(out of 4) **Australian** ministries, the head of IA reports to the Director General or the Accounting Officer. This governance structure may not permit IA to freely establish and implement its work plan, notably concerning audits of these administrative and accounting departments. The Australian Ministry has clearly identified this issue, and recognizes that this governance structure does not represent best practice.

- **Countries in which internal audit reports to the highest level of authority within the ministry**

40. This second group comprises **Bulgaria, Brazil, Canada, Finland, France, the Netherlands, Sweden** and the **United States**.

41. In the **United States**, all participating ministries responded that their IA services reports either to the Department Secretary or Deputy Secretary, in accordance with legal requirements. Indeed, the 1978 Inspector General Act requests the creation of an Office of Inspector General in charge of audit and investigation within government departments and agencies. Under this Act, the Inspector General reports to the head or deputy head of the institution, not to any other official of the establishment. Moreover, the Inspector General is free to establish its work plan, has no executive responsibilities, and has access to all information within the ministry to carry out the audit. All these provisions clearly contribute to his/her independence.

42. Furthermore, the 1978 Act requests that the Inspector General be appointed and removed by the President of the United States, by and with the advice and consent of the Senate. This mechanism may be said to contribute considerably to the independence of the Inspector General, since his/her position within the ministry does not depend on his/her relationship with the minister.

Results of the follow-up questionnaire

43. According to the results of the follow up questionnaire, the existence of a reporting line for IA to the highest authority in the ministry is a criteria that is considered as being 1 of the 4 most important factors to improve IA's contribution in preventing, detecting and reporting F&C: it had been selected 31 times out of the 47 answers received, and it is ranked as the second most important criteria.

44. In countries where IA does not systematically report to the highest authority within the ministry, such a reporting line is not always perceived as a key factor to improve IA's contribution in F&C:

- In **Australia** and in **the United Kingdom**, the majority of participating ministries considers that independence of IA is a key factor to improve its contribution in preventing, detecting and reporting F&C. All the **Australian** respondents consider this factor as the most important, even if 3 out of 4 are already compliant. In the **United Kingdom** this factor was selected 4 times out of 6, and ranked first three times.
- In **Japan** and in **South Africa**, an internal control framework, a periodic evaluation by IA of the F&C prevention, detection and reporting system, and a dual reporting line for IA are considered more important than IA reporting to the highest authority within the ministry.

Conclusion and proposed best practice

45. The International Standards for the Professional Practice of Internal Auditing (The Standards) established by The Institute of Internal Auditors (The IIA) state that IA should be independent. Indeed, independence guarantees IA's freedom in defining its activities, in executing the work plan, in accessing staff and information without limitations, and in the reporting of findings. Regarding F&C, practices described above concur with the Standards since they show that IA independence is a key factor to ensure its effectiveness in prevention, detection and reporting of such cases.

46. To achieve this independence, the Standards recommend that the Chief Audit Executive reports to a level within the organization that allows the internal audit activity to fulfil its responsibilities. Practices described above provide some proposals for action which could be considered by ministries to strengthen the independence of their IA services:

- As illustrated by the majority of surveyed respondents, IA should report to the highest level within the entity, namely the minister or equivalent;
- In addition, as is the case in the majority of sampled ministries, the existence of an IA function within the ministry, and its line of reporting to the highest level, should be a legal requirement, and not subject to management's decision within the ministry;
- This reporting line should be formalized in the internal audit mandate.

Section 1.2 - Internal audit additional reporting line: an oversight body contributing to internal audit transparency

Is the existence of an audit committee, whose members may be independent of the executive management of the ministry essential in supporting internal audit in the prevention, detection and reporting of fraud and corruption?

Link to theme

47. As observed in Section 1.1, the independence of internal audit (IA) highly depends on the level of the person to whom IA reports within the ministry. IA usually reports to the minister him/herself, or to executives he/she has appointed. Could the independence of IA and the transparency of its reporting, particularly with regard to fraud and corruption (F&C), be increased by a second reporting line? Does such a second reporting line exist in surveyed ministries? If yes, in what form?

Global results from the survey

48. 46% of participating ministries, i.e. 33 out of 73 respondents, have an audit committee. Among the remaining 40 respondents, 1 did not respond and 39 declare not having such and oversight body. Special attention is given to the case of the **United States** since, even if sampled ministries do not have an audit committee, their IA function does have a second reporting line.

Specific country cases

- **Countries in which there is no second reporting line for IA**

49. In **Bulgaria, Brazil, Finland, Japan, Sweden** and in half of the **French** participating ministries, IA does not report to an independent oversight body such as an audit committee. Nevertheless, some respondents described alternative mechanisms in place to contribute to IA transparency. These are as follows:

50. In **Finland**, 2 participating ministries out of 5 state that IA communicates its work plan and annual report, including information regarding audits carried out during the past year and information regarding coming audits, to other departments within the ministry. In **Sweden**, 1 of the 5 surveyed ministries mentions that, although there is no second reporting line in the form of an audit committee, all reports are available on intranet, to which access is possible for all staff. These processes may contribute to the transparency of IA activities.

51. In **Bulgaria**, according to the *Internal Audit in Public Sector Act*, IA is required to prepare an annual report on IA activities, which shall be communicated to the ministry of finance, namely either the minister him/herself or the Internal Control Directorate within the ministry. This review of IA activities by an external official is an interesting mechanism contributing to the transparency of IA reporting.

52. In **France**, half of the participating ministries do not have a second reporting line in the form of an audit committee. The French government considers this as an area for improvement. As a consequence, as part of reform of the implementation of public policies launched in 2007, the “*Révision Générale des Politiques Publiques*”, an internal control framework will be adopted in the next 3 years, including the formalization of IA services, and establishment of audit committees in the different ministries.

- **Countries in which there is a second reporting line for IA**

53. In **Australia, Canada, the Netherlands, South Africa, the United Kingdom** and the **United States**, participants state that IA has a second reporting line. It is also the case for half **French** ministries. Apart from the **United States**, this reporting line is in the form of an audit committee, the independence of which varies according to the country.

To whom the audit committee reports

54. All the ministries participating from **Australia, Canada, the Netherlands, South Africa** and the **United Kingdom**, have an audit committee to which IA reports. This is also the case for 2 **French** ministries. In all these cases, the audit committee reports to the head of the agency or the chief executive of the ministry. For example, in **Australia**, the Financial Management and Accountability Act of 1997, which includes all provisions relating to audit committees in the public sector, clearly states that the audit committee shall report to the secretary of the department, as well as to its executive board. Similar provisions are provided in the Policy on Internal Audit, which regulates arrangements relating to audit committees, issued by the **Canadian** treasury board.

Composition of the audit committee.

55. Where an audit committee exists, the independence of its members from executive management varies as follows:

Figure 2. Degree of independence of audit committees

Participating countries	No. of ministries in which there is an audit committee	No. of totally or substantially independent audit committees	No. of semi-independent audit committees	No. of fully internal audit committees	No. of audit committees that cannot be categorized
Australia	4	1	3		
Canada	6	6			
France	2	1	1		
Netherlands	11	1	8	2	
South Africa	4	2	1		1
United Kingdom	6	6			
Total	33	17	13	2	1
Total (%)	100	52%	39%	6%	3%

Totally or substantially independent audit committees are composed of a significant majority of external members.

Semi-independent audit committees comprise senior executives of the ministry as well as external members.

Internal audit committees are composed of a majority of senior executives of the ministry.

56. With regard to the independence of audit committee members, the case of **Canada** may be highlighted: it is a legal requirement that members be recruited from outside the public administration. These provisions highly contribute to the independence of the members from the Minister, to whom the audit committee usually reports

Mandate of the audit committee notably relating to F&C

57. The audit committees existing in the ministries in countries sampled usually do not have specific responsibilities related to F&C.

58. Nevertheless, in **Australia**, the mandate of the audit committees, defined in a charter usually signed by the secretary of the department, covers the monitoring of risks exposure, including those relating to fraud. There is no specific reference to corruption. Two ministries (out of 4), in which investigation and IA activities are headed by the same person, mention that a report on cases of F&C is made quarterly to the audit committee.

59. In **Canada**, the mandate of audit committees is defined in the *Directive on Departmental Audit Committees*, and includes the monitoring of actions undertaken to mitigate risks identified, the monitoring of the advancement of the execution of the work plan and the follow-up to implementation of IA recommendations, but does not specifically refer to fraud and corruption. This has also been observed in **South Africa**.

Particular case of the United States

60. In the **United States**, as mentioned in Section 1.1., the reporting line of IA is defined as part of the 1978 Inspector General Act: inspectors general first report to the head or to the deputy head of the institution. The Act also requires that they report to and inform Congress of any problems and deficiencies relating to the administration of programs, including frauds and abuses. This report is made every six months. It is clear that this second reporting line is an important contribution to the independence of the inspector general since he reports to the two constitutional branches of the State, namely the executive branch, via the first reporting line to the head of national department and being appointed by the head of State, and the legislative branch.

Results of the follow up questionnaire

61. It is interesting to note that the existence of a second reporting line to an independent body, such as an audit committee, is not perceived by respondents as a key factor to improve and increase IA's role in preventing, detecting and reporting fraud and corruption: among the 47 responses to the follow-up questionnaire received from ministries, only 10 have selected a second reporting line as an important factor.

62. No clear trend can be drawn from the responses received to this follow-up questionnaire from sampled ministries in which IA has no second reporting line: **Bulgaria, Finland, France** and **Japan** all selected the dual reporting line as an important factor to improve the contribution of IA to F&C issues. On the other hand, no **Swedish** respondent selected this factor as an important element.

Conclusion and proposed best practice

63. One of the key factors raised by the Standards to achieve IA independence and transparency is unrestricted access to senior management and the board. One way proposed by the Standards to implement this requirement is the establishment of a dual reporting relationship for IA to senior management and the board. In practice, this dual reporting line means an administrative reporting to the chief executive officer and a functional reporting to the board.

64. In ministries, the equivalent of “board” usually does not exist. However, practices described above propose some way to increase IA independence through reporting lines:

- Referring to Section 1.1, a first reporting line for IA to the highest authority within the ministry could be established,
- This could be complemented by an additional reporting line, in the form of an independent audit committee, reporting to the highest level of authority within the ministry.
- Practices show that, to be “independent”, the majority of audit committee members should be recruited from outside the ministry, and ideally some from outside the public administration.

Section 1.3 – Internal audit and investigation: allocation of prevention, detection and investigation responsibilities

When the internal audit mandate includes fraud & corruption responsibilities, is this more effective in supporting integrity than if these are assumed by, or shared with, an entity separate from internal audit (e.g. by an inspectorate general)?

If this mandate is assumed by, or shared with, a function separate from internal audit, what actions should be taken by both functions to optimize mutual support and continual cooperation in the prevention, detection, reporting and investigation of fraud & corruption?

Link to theme

65. These questions explore the extent to which Internal Audit (IA) can be expected to effectively contribute to the prevention, detection, reporting and investigation of fraud & corruption (F&C) if this responsibility for F&C investigation is assumed totally by, or shared with, another separate, specialist function, either within or outside the same ministry.

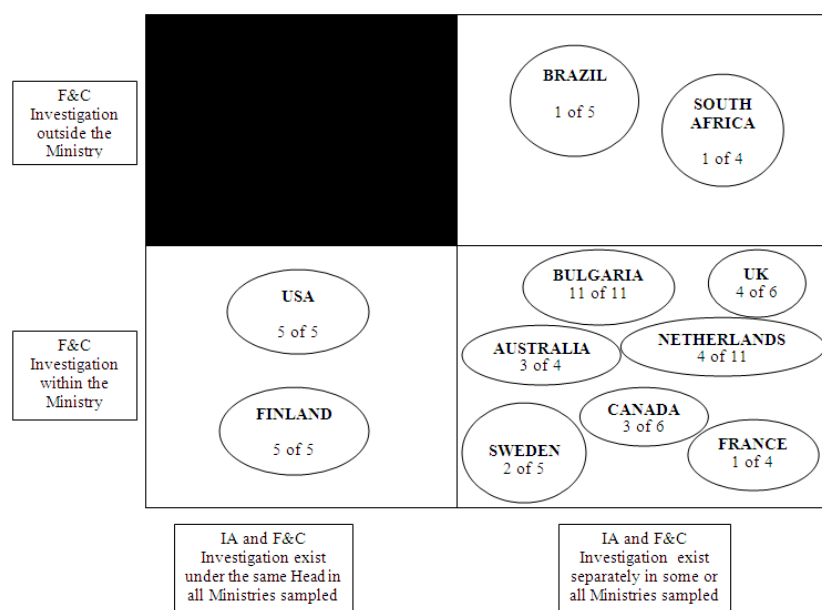
66. Where the mandate is assumed by a separate entity, the question is also addressed regarding action to be taken by both entities so that they may mitigate risk of non pursuit of control deficiencies.

Global results from the survey

67. In the countries participating in the survey, the extent to which there are specialist entities separate from IA charged with F&C investigation varies considerably.

68. Similarly, when the entities exist either together or separately, opinion also varies as to whether the efficiency of the mechanisms supporting integrity is enhanced, and, in many instances, no explanation is provided to support the opinion. If an explanation is provided, it has been included in the specific country cases summarized below.

69. Three scenarios emerge: (i) where both IA and F&C investigation functions exist together under the same head (the case of the **United States** and **Finland**, as illustrated in the graph below); (ii) where both exist as separate entities but within the same ministry (the case of some or all ministries in **Australia, Bulgaria, Canada, France, the Netherlands, Sweden, and the United Kingdom**, as summarised in the graph below); and (iii) where both exist as separate entities but, in some Ministries, the F&C investigation function exists outside the ministry (the case for some ministries in **Brazil** and **South Africa**, as illustrated in the graph below). The text following this graph describes findings specific to those countries discussed under each of these three categories.

Figure 3. Allocation of responsibility of fraud and corruption investigation – global results and specific cases

Note: In the case of Japan, in the ministries sampled there is no specific F&C investigation function: F&C cases may be treated ad hoc by other departments/teams.

Specific country cases

- **3 sampled countries where there are no ministries with entities separate from IA charged with F&C investigation**

70. In the **United States**, the Office of Investigation, situated in the Office of the Inspector General (OIG), is specifically mandated to investigate criminal activities. Both offices are headed by separate Assistant Inspectors General that report independently to the Inspector General and Deputy Inspector General. According to the combination of factors taken into account, all sampled ministries are assessed as having a high involvement of IA in F&C prevention, detection and reporting (also discussed in Section 2.1), and all provided the number of cases of F&C reported in the last twenty-four months.

71. In **Finland**, IA and F&C investigation functions exist together in all five ministries sampled. All five are assessed as having a medium to high degree of involvement in fraud prevention, detection and reporting, and a medium degree of involvement in corruption. All five were able to report the number of cases of F&C in the last twenty-four months.

72. In the case of the six ministries sampled in **Japan**, there is no function existing separately from IA which is specifically charged with F&C investigation. In one ministry, fraud and corruption cases will be investigated by the office responsible for HR matters, and in another an ad hoc investigation team is formed under the minister. Sampled ministries are assessed as having a medium to low involvement of IA in F&C prevention, detection and reporting. None provided information regarding IA knowledge of the number of cases of F&C in the last twenty-four months.

- **7 sampled countries where there are some ministries with a function separate from IA charged with F&C investigation, but where both functions exist within the same ministry**

73. In the case of **Bulgaria**, and as established by the country’s “Public Administration Act”, there exists a F&C investigation function separate from IA, although within the same ministry, in all of the 12 ministries sampled (100%).

74. One IA in a ministry has remarked that, without clear regulations, some functions would be rather overlapped. Another believes that efficiency may be increased if the scope of both is clearly defined. A third has stated that if the two services co-exist there is a risk of partial duplication of activities.

75. All sampled ministries are assessed as having on average a low involvement of IA in F&C prevention, detection and reporting.

76. None provided information regarding IA knowledge of the number of cases of F&C in the last twenty-four months.

77. Some sampled ministries clearly stated that there is no official communication line between IA and F&C investigation, and that IA knowledge of cases of F&C is therefore dependent on IA specifically requesting such information and/or the good co-operation fostered between the two services.

78. Regarding the **United Kingdom**, there exists a F&C investigation function separate from IA in four of the six Ministries sampled (66%).

79. Of the six, two have a high involvement of IA in prevention, detection and reporting of Fraud and the remaining four a medium involvement, whilst involvement in prevention, detection and reporting of Corruption cases for all six is considered medium to low.

80. Little information was provided regarding IA knowledge of the number of cases of F&C in the last twenty-four months.

81. Some of those respondents with F&C investigation functions separate from IA state the necessity for mandates for both which provide clear distinction and solid working practices and relationships between teams, and regular liaison to avoid duplication.

82. In the case of **Canada**, there exists a F&C investigation function separate from IA in three of the six ministries sampled (50%).

83. Sampled ministries have on average a medium to high involvement of IA in F&C prevention, detection and reporting. 2 of the 6 ministries in the sample reported the number of cases of F&C in the last twenty-four months.

84. One ministry states that IA meets regularly with the F&C investigation function in order to be brought up-to-date.

85. Of the 5 **Swedish** ministries sampled, 2 have a F&C investigation function separate from IA (40%). In the case of the **Netherlands**, there exists a F&C investigation function separate from IA in 4 of the 11 ministries sampled (36%).

86. Nevertheless, whilst the majority of F&C investigation functions are not separate from IA in these countries, ministries sampled have on average a medium involvement of IA in F&C prevention, detection and reporting. Only some report the number of cases of F&C in the last twenty-four months.

87. In the case of **Australia**, there exists a F&C investigation function separate from IA in only 1 of the 4 ministries sampled (25%). This respondent considers that efficiency is increased in that the two functions are undertaken more effectively by staff with different, appropriate competencies.

88. Of the remaining 3, one has emphasized the increasing emphasis on pro-active work to detect F&C, the importance of timely communication by IA to F&C investigation branch of those areas where internal controls to mitigate fraud and corruption are considered weak, and that the efficiency of this co-operation is enhanced where both entities exist under the same head.

89. According to the combination of factors taken into account, sampled ministries are considered as having on average a high involvement of IA in F&C prevention, detection and reporting, and all reported the number of cases of F&C in the last 24 months.

90. In the case of **France**, there exists a F&C investigation function separate from IA in only 1 of the 4 ministries sampled (25%). This respondent considers that co-existence increases efficiency as the two functions have quite distinct missions.

91. Sampled ministries are assessed as having on average a medium to high involvement of IA in F&C prevention, detection and reporting.

92. One of the 4 was able to report the precise number of cases of F&C in the last 24 months.

- **2 sampled countries where there are ministries with entities separate from IA charged with F&C investigation, and where, in some of those ministries, that separate entity exists outside the ministry**

93. Of the 5 **Brazilian** ministries sampled, all (100%) have a F&C investigation function separate from IA, however in one case this investigation function exists outside the ministry.

94. The IA functions in 3 of the 5 ministries sampled are considered to have a high involvement in prevention, detection and reporting of both fraud and corruption, and 2 of the 5 a low involvement. None reported the number of cases of F&C in the last 24 months.

95. Of the 4 **South African** ministries sampled, three (75%) have a F&C investigation function separate from IA, and, of those 3, 1 has a “Special Investigation Unit” existing outside the ministry, empowered to investigate fraud and to prosecute officials involved in fraudulent activities. The F&C investigation entities of the remaining 2 exist within the same ministry.

96. The sole ministry sampled where the IA and F&C investigation functions report to the same head considers that this increases efficiency since all negative findings of IA are channelled immediately to F&C investigation, and, conversely, any control deficiencies identified as a result of fraud investigation are covered in the IA programme.

97. Irrespective of whether the F&C investigation function is separate from IA, the IA functions in sampled ministries are considered to have a medium to high involvement in prevention, detection and

reporting of fraud, although a low involvement in prevention, detection and reporting of corruption, and demonstrate a good knowledge of the number of cases of F&C in the last 24 months.

Conclusions and proposed best practice

98. Little conclusion can be drawn from the survey responses as to whether or not integrity is more effectively supported if the IA mandate includes specific responsibilities in relation to F&C investigation, or if this mandate is assumed by a separate entity (in the same or in a separate ministry).

99. However, it may be said that the risk of non pursuit of control deficiencies increases if the mandate for F&C investigation is assumed separately, even more so if it exists separately and outside the ministry.

100. Where the two functions are separate but within the same ministry, a number of respondents as from **Australia, Bulgaria, Canada, France, South Africa, Sweden, the United Kingdom** and the **United States**, have included in their 4 out of 13 proposed most important success factors (for the enhancement of IA contribution to preventing, detecting and reporting F&C) a system of periodic exchanges of information on F&C cases.

101. Where the IA and F&C investigation functions exist separately, the mandate and scope of each should be clearly defined in order to mitigate risks of non pursuit of control deficiencies:

- As advocated by the Standards, the IA mandate should expressly include evaluation of “the potential for the occurrence of Fraud and how the organizations manage Fraud risk” (refer to Section 2.1).
- Responsibilities for the separate investigation activity vis-à-vis the sharing with IA of prevention, detection and reporting of cases of F&C should be clearly stated in its mandate.

102. To realize the respective mandates in practice if the two functions exist separately, policies and procedures should be developed to encourage:

- Communication by IA to the F&C investigation function for follow-up of any relevant internal control deficiencies identified in the course of internal audit;
- Conversely, any control inefficiencies identified as a result of a F&C investigation should be communicated to IA for inclusion in its risk-based work programme;
- Regular coordination / liaison of work programmes and findings (including annual reports); and
- Joint training / F&C risk awareness initiatives.

103. This need for formalization of communication policies and procedures is all the more advisable where the separate F&C investigation function exists outside the ministry.

Section 1.4 – Communication to external audit of internal audit work and findings

Could systematic communication to external audit of internal audit work and findings contribute to mitigation of fraud and corruption risks?

Link to theme

104. This question explores the extent to which increased transparency through the communication of internal audit (IA) reports to external audit (EA) would contribute to mitigation of fraud & corruption (F&C) risks.

Global results from the survey

105. The extent of EA and IA relationship is in some countries dictated by legislation.

106. Country responses show that this relationship may range from the minimum, whereby access to IA staff and records is granted to EA when requested, to the case of the **United Kingdom** where in one ministry surveyed EA as well as IA attends all meetings of the Audit Committee. In another **United Kingdom** ministry surveyed, how both work together is included in a memorandum of understanding.

Specific country cases

107. Country profiles show that **Australia, Canada, Finland, South Africa, United Kingdom** and **United States** have a high intensity of relationship with EA; **Bulgaria** is found to have an equal proportion of Ministries with medium and high intensity of relationship; **France, Japan, Netherlands** and **Sweden** have a medium relationship; and in the case of **Brazil** this intensity is considered low. Based on responses to the questionnaire, this “intensity” was assessed according to the extent to which EA has unrestricted access to staff and reports of IA, and the extent to which there is a process by which IA reports are systematically communicated to EA.

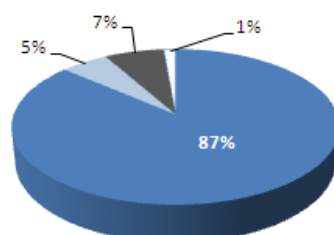
108. In response to the question, “does EA have unrestricted access to staff and reports of IA?” a large majority of surveyed countries responded yes (87%), except **Sweden**. Of the four **Swedish** ministries, three IA functions responded no, although EA and IA meet regularly, whilst the fourth IA function stated yes and that the two meet regularly to ensure the efficient use of audit resources.

Figure 4. Access of external audit to internal audit staff and reports

Does external audit have unrestricted access to IA staff and reports?

Refer to question 2.2.7 of the questionnaire

■ Yes ■ No ■ Not applicable □ No Answer



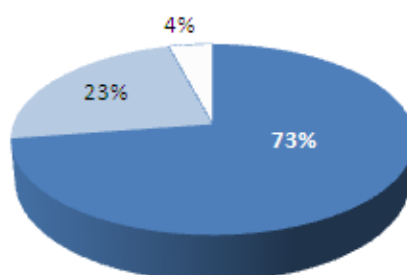
109. To the question, “is there a process by which IA reports are systematically communicated to EA”, 73% responded yes. One of the **French** ministries stated whilst that no IA function could refuse EA access to reports requested, communication of all reports might not be *systematic*. All 5 **Brazilian** ministries responded no, as did 6 of the 11 surveyed **Bulgarian** ministries, and 3 of the 6 **Japanese**. In this country, the Board of Audit Law states that the Board of Audit has unrestricted access to staff and IA reports of subject ministries, even though communication of all reports might not be systematic.

Figure 5. Communication of internal audit reports to external audit

Is there a process by which IA reports are systematically communicated to external audit?

Refer to question 2.2.8 of the questionnaire

■ Yes ■ No □ No Answer



Conclusion

110. Whilst not the core objective of this survey, results illustrate that it is worth further exploring how increased coordination of IA and EA work may contribute to mitigating risk of F&C.

Section 1.5 - Fraud and corruption risk management

Should ministries introduce or strengthen their risk management culture, including fraud awareness, and could the existence of an official fraud & corruption prevention plan assist?

Link to the theme

111. With the objective of determining whether the internal control and risk management culture in surveyed ministries supports internal audit (IA) in enhancing integrity, this theme examines several questions from the survey, notably:

- The extent to which the entity has adopted an ICF comprising control activities, control environment, risk assessment and monitoring;
- If, as part of this framework, management is assigned responsibility for internal control, risk management and the prevention of fraud or corruption (F&C); and
- The measures being used to prevent, and build resistance to, F&C in financial transactions, specifically: separation of receipt of goods/services and verification of goods/services; separation of payment request and payment authorization; electronic payment review or approval procedures; periodic rotation of employees in payment authorization functions; and others.

Global results from the survey

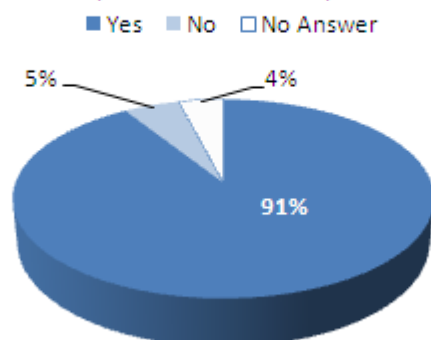
112. A significant majority of surveyed ministries responded affirmatively in all three cases:

- 91% state that they have adopted an ICF comprising control activities, control environment, risk assessment and monitoring.

Figure 6. Existence of an internal control framework as reported by respondents

Has your entity established an internal control framework comprising control activities, control environment, risk assessment and monitoring?

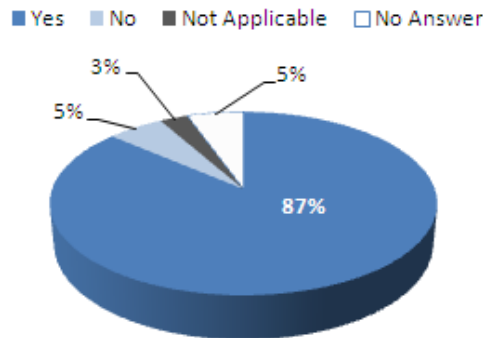
Refer to question 1.1 of the questionnaire



- As part of this framework, 87% state that management is assigned responsibility for internal control; 84% for risk management; and 75% for the prevention of F&C.

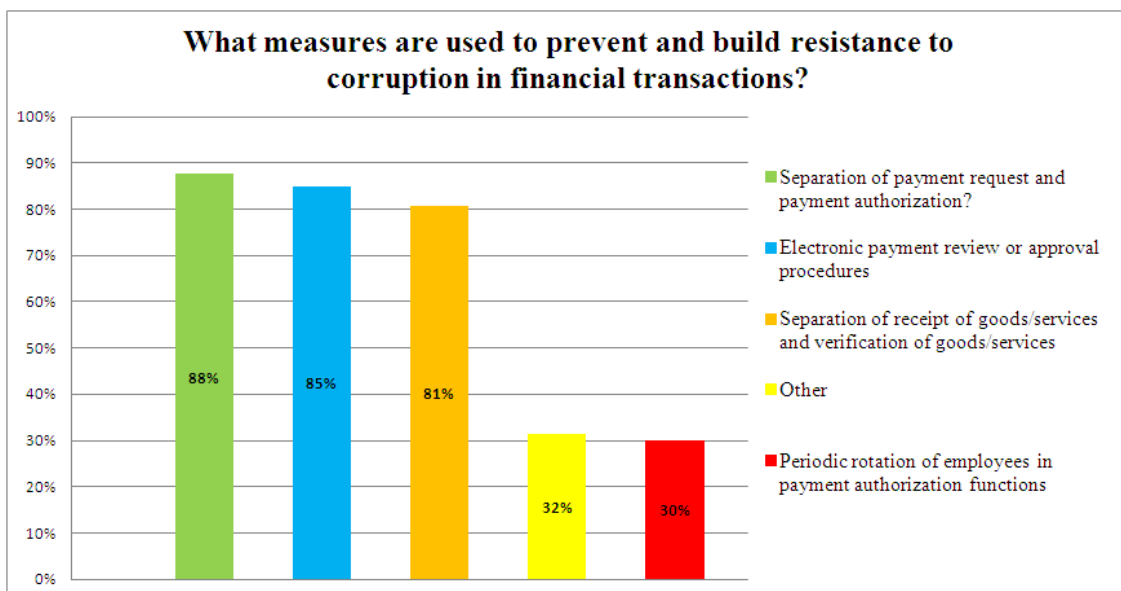
Figure 7. Management's responsibility for internal control

As part of this framework is management assigned responsibility for Internal Control?
Refer to question 1.2 of the questionnaire



- Regarding the measures being adopted to prevent, and build resistance to, F&C in financial transactions, 81% of respondents state that they use separation of receipt of goods/services and verification of goods/services; 88% use separation of payment request and payment authorization; 85% use electronic payment review or approval procedures; and a minority responds affirmatively only in the case of periodic rotation of employees in payment authorization functions and “other methods” – 30% and 32% respectively.

Figure 8. Measures to prevent and build resistance to corruption in financial transactions



Specific country cases

113. Concerning the adoption of an ICF comprising control activities, control environment, risk assessment and monitoring, 100% of ministries surveyed in **Australia, Bulgaria, Brazil, Sweden, United Kingdom** and **United States** responded positively. In all others at least 75% responded positively, except in the case of **Japan** where 50% respond positively and for 50% no response was provided.

114. However, a closer read of some comments from respondents shows that there remains a limited definition in ministries of “control environment”. One **French** respondent states that the ICF is insufficiently formalized, and that the concept of internal control and risk management is limited to financial and budgetary. Yet F&C are of course captured not solely via financial controls, but also via the wider control environment of “soft controls” including codes of ethics/conduct and F&C prevention plans (or equivalent mechanisms). A respondent from **Canada** has stated that there is no formal mechanism dedicated to F&C detection. Another from **Australia** recognizes the need for an internal audit of the F&C prevention framework, and that recommendations will form part of the implementation plan to more completely incorporate and address F&C risks.

115. Concerning the assignment of responsibility for certain aspects of this framework to management, again a significant proportion of IA activities in **Japanese** ministries did not provide a response. At least 75% of ministries in all other countries responded positively, except for:

- **Brazil** where only 40% of respondents state that management is assigned responsibility for risk management (yet 100% state that management is assigned responsibility for internal control and the prevention of F&C); and
- **The Netherlands**, where 64% of ministries surveyed state that management is assigned responsibility for the prevention of F&C.

116. Concerning the measures being adopted to prevent, and build resistance to, F&C in financial transactions, again for a high proportion of IA activities in **Japanese** ministries no detail was provided. Otherwise:

- concerning the use of separation of receipt of goods/services and verification of goods/services, only in the case of **Canada** and **Finland** did less than 75% respond affirmatively - 67% and 60% respectively;
- concerning the use of separation of payment request and payment authorization, in all countries, at least 75% responded affirmatively;
- concerning the use of electronic payment review or approval procedures, again, in all countries, at least 75% responded affirmatively.

Conclusion and proposed best practice

117. The positive responses from the majority of ministries surveyed may be interpreted in light of certain comments that the ICF still lacks formalization and is understood by many as applying solely to financial and budgetary matters. A number of ministries surveyed, such as from **Australia, Bulgaria, Canada, Finland, France, Japan, the Netherlands, Sweden** and the **United Kingdom**, have included in their four most important success factors for the enhancement of IA contribution to preventing, detecting and reporting F&C a control framework which would mention internal control as a key means for preventing F&C. In addition, this factor was the most frequently ranked as the most important one.

118. The Standards states that IA work should include advocating measures to improve the effectiveness of risk management, control, and governance processes. Thus, IA may have a key role to play in advocating the formalization of an internal control and risk management framework going beyond purely financial controls, but also the wider control environment including codes of ethics/conduct and F&C prevention plans (see also Section 2.2.).

Chapter 2: Internal audit mandate / scope of work

Section 2.1 - Reference to fraud and corruption in internal audit mandate

Is it essential that there be a clear reference in the internal audit mandate to evaluate internal controls over risk of fraud and corruption?

Link with the theme

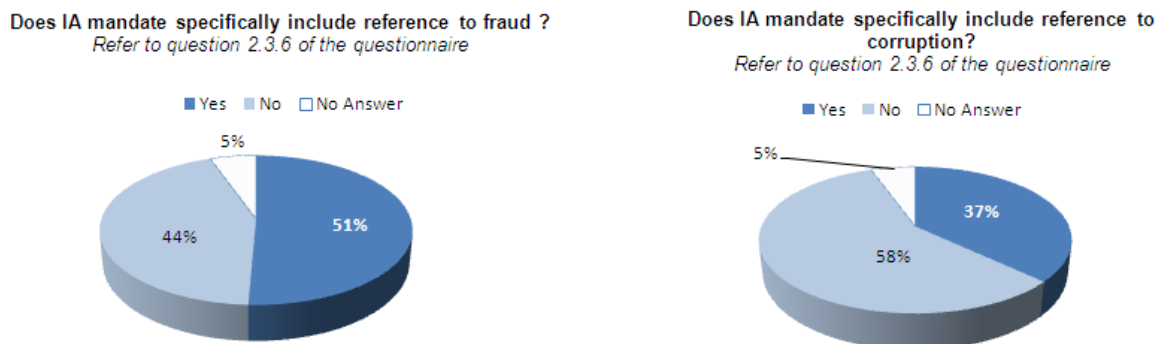
119. For all the participants in the survey, there is a legal basis for the mandate of an internal audit (IA) function within a ministry. The definition and scope of this mandate are usually precise, as they empower IA to act, internally and vis-a-vis the external auditor. The survey included questions on reference in the IA mandate to (i) prevention, detection and reporting of fraud and corruption (F&C), and (ii) to relevant professional standards, notably the Standards of The Institute of Internal Auditors, since the latter advocate that the IA activity should “evaluate the potential for the occurrence of fraud and how the organizations manages fraud risk”.

Global results from the survey

120. Responses show that, in the 12 participating countries, the degree to which the IA mandate specifically refers to F&C varies between countries, and between fraud and corruption:

- Of the responses from the sample of 73 ministries, 44% indicate that there is at present **no reference** in their mandate to fraud; and for corruption this figure amounts to 58%; 5% did not respond to both questions.

Figure 9. Reference to fraud and corruption in internal audit mandate



- 12 % of respondents state that the definition and scope of their mandate is not consistent with the Standards for IA.
- 16 % of ministries state their intention to strengthen the IA mandate by introducing reference to the Standards, perhaps signalling their search for a widening of their role, and an opportunity to more actively contribute to combating F&C.

Specific country cases

121. In many countries, IA responses vary from one ministry to the other:

- Those countries where a clear majority of respondents indicate that their mandate includes reference to *fraud* are: **South Africa, United Kingdom and United States**.
- For **Canada**, 50% state that their mandate includes this reference. For **Bulgaria**, 66 % also state that their mandate includes this reference, although sometimes only through the provision that IA reports on fraud cases if detected in the course of an audit.
- In **Finland, France and Sweden**, the IA mandates of a minority of ministries include this reference.
- In some countries such as **Japan** and the **Netherlands**, no specific reference is made to fraud.

122. Regarding the specific reference to *corruption* in IA mandates:

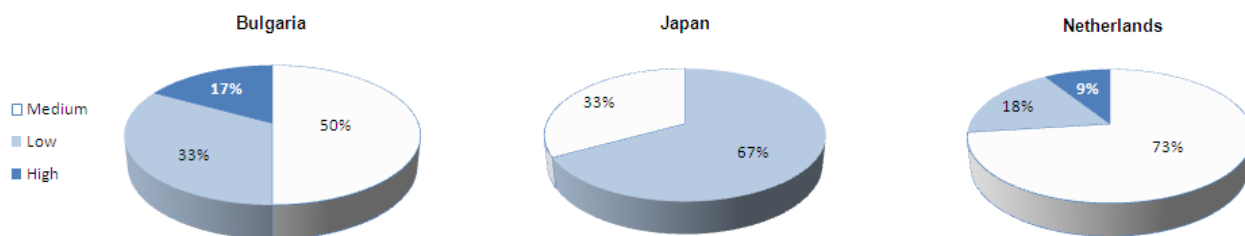
- Only in the **United States** is this reference present in all sampled departments.
- 50% of IA in sampled ministries in **Australia** and **South Africa** display this reference in their mandates.
- In **Bulgaria, Canada, Finland, France, Sweden** and the **United Kingdom**, a minority of IA in surveyed ministries or government agencies refer to corruption in their IA mandates.
- In **Japan** and the **Netherlands**, there is no reference to corruption in the IA mandates of ministries sampled.

123. Those participating countries assessed as having a low to medium involvement of IA in preventing, detecting and reporting of F&C also have no explicit reference to F&C in the IA mandate. The degree of involvement of IA in preventing, detecting and reporting of F&C, is based on a combination of responses to 5 questions of the survey relating to corruption and 7 to fraud, as explained in Annex B on survey methodology).

124. It appears that in the 3 participating countries where the IA mandate makes no explicit reference to fraud (**Bulgaria, Japan, and Netherlands**), the degree of involvement of IA in preventing, detecting and reporting fraud is “low to medium”.

125. The pie charts (Figure 10) of these 3 countries in which IA mandates make no direct reference to fraud illustrate the degree of involvement of IA in preventing, detecting and reporting fraud.

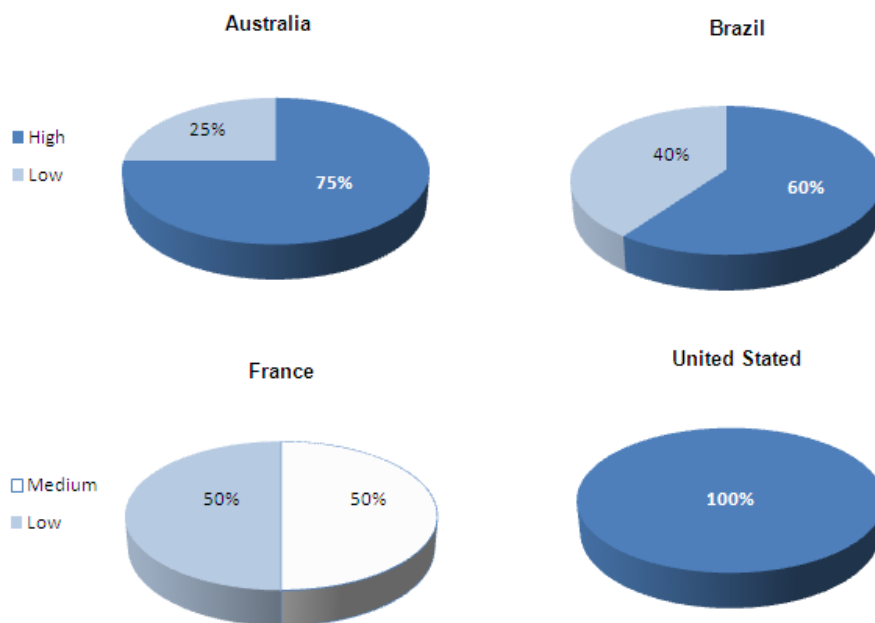
Figure 10. Degree of IA involvement in preventing, detecting and reporting fraud – Bulgaria, Japan, Netherlands



126. In countries where in all or some ministries the Inspector General or similar function heads both the IA and investigation functions, and where the mandate makes a specific reference to fraud (**Australia, Brazil, France, United States**), the degree of involvement of IA in preventing, detecting, reporting fraud according to the respondents’ answers is higher.

127. The pie charts below of these 4 countries in which IA mandates makes explicit reference to fraud illustrate this aspect.

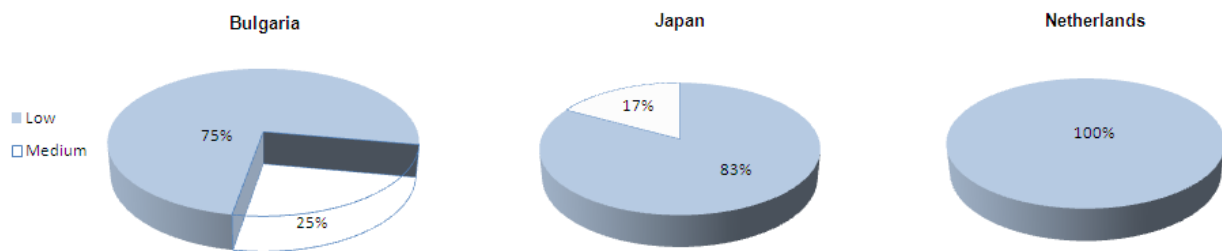
Figure 11. Degree of IA involvement in preventing, detecting and reporting fraud - Australia, Brazil, France, United States



128. Applying the same method of assessing IA involvement in preventing, detecting and reporting corruption, the same pattern appears, and is even more evident than in the case of fraud, with a predominance of “low” IA involvement where there is no reference to corruption in the IA mandate.

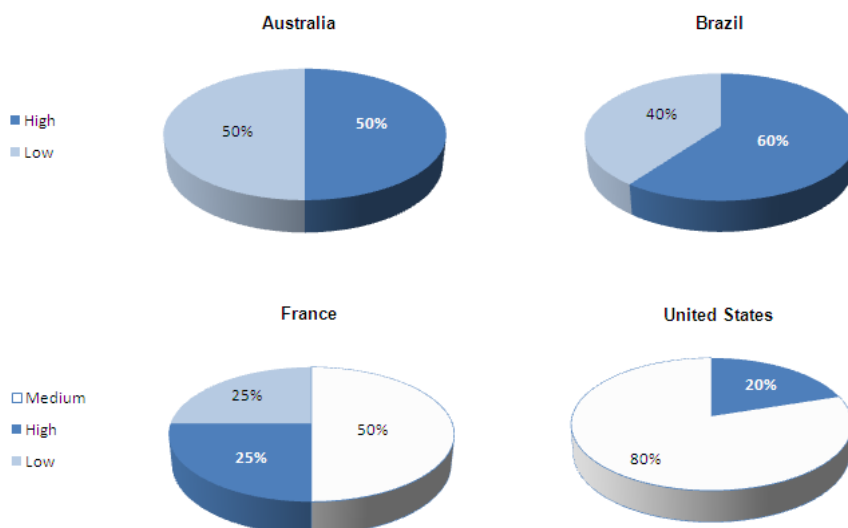
129. The pie charts of the following 3 countries in which IA mandates makes no reference to corruption, **Bulgaria** –for a majority of sampled ministries-, **Japan** and the **Netherlands** illustrate the degree of involvement of IA in preventing, detecting and reporting corruption.

Figure 12. Degree of IA involvement in preventing, detecting and reporting corruption - Bulgaria, Japan, Netherlands



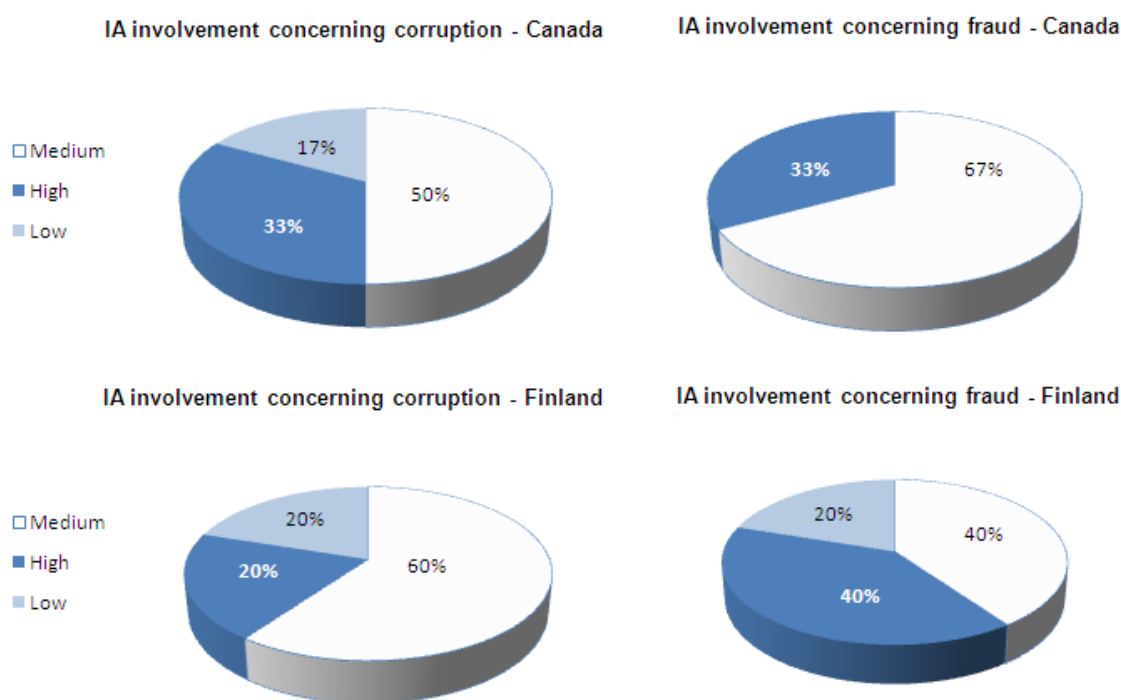
130. Again, in the countries where in all or some ministries the Inspector General heads both the IA and investigation functions (**Australia, Brazil, France, United States**), the degree of IA involvement in preventing, detecting and reporting corruption is, according to the participating ministries, higher:

Figure 13. Degree of IA involvement in preventing, detecting and reporting corruption - Australia, Brazil, France, United States



131. In the case of the sample ministries from **Finland** and **Canada**, although no reference is made to F&C in the IA mandate, the degree of involvement is relatively high: one reason could be that the mandate of IA within these ministries makes reference to the Standards, or to national regulation or guidelines for IA, which go beyond the Standards relating to fraud risks. A good example is provided by the guide issued by Treasury board of Canada on “Responsibilities and Accountability of IA for the Detection, Investigation and Reporting of Fraud”.

Figure 14. Degree of IA involvement in preventing, detecting and reporting fraud and corruption – Canada and Finland



132. In a follow-up questionnaire, the same respondents were asked to identify and rank the 4 most important factors, in their view, to enhance the contribution of IA to the prevention, detection and reporting of F&C.

134. The results show that respondents in **Bulgaria**, **Japan**, and the **Netherlands** rate this issue of mandate as the first ranking factor.

135. Respondents of **Sweden** and the **United Kingdom** rank this factor as the second most important.

136. It is interesting to note that in the case of **South Africa**, no respondent quoted this issue, signalling perhaps that they view their mandate as sufficiently clear.

Conclusion

137. When observing the differences between participating countries, there appears to be a pattern showing that IA involvement in the prevention, detection and reporting of F&C is enhanced either (i) if there is explicit reference to F&C in its mandate, or (ii) if this mandate includes reference to the Standards of The IIA. This statement does not apply to countries where the IA and F&C Investigation functions are under the same authority, since the reference to F&C is usually always included in the mandate of the investigation branch.

138. In **France** and **Sweden**, a significant portion of respondents mention their intention to introduce the reference to the Standards in their mandate (see Section 2.2). In **Sweden**, 2 ministries state their intention to include reference to the evaluation of controls over risks of F&C in their updated IA mandates, in order to align these with similar provisions already existing in the IA mandates in 2 other ministries.

Proposed best practice

139. For those countries or ministries in which IA and F&C investigation do not exist under the same head, it is advisable that reference to F&C risks be explicitly included in the IA mandate.

140. Where the reference to F&C risks already exists, adding a clear reference to the Standards may help to strengthen IA activity in this field. The Standards specifically include reference to fraud but not corruption. Survey responses have shown that the reference to fraud does not automatically include corruption. It is therefore advisable that explicit reference to corruption be included in any future update of the Standards.

141. An explicit reference to corruption risks in the mandate is particularly advisable since the majority of respondents have shown less involvement than in fraud.

Section 2.2 - Assessment of the system in place to mitigate fraud and corruption risk

Should any periodic report by internal audit on internal controls specifically include its assessment of the effectiveness of the ministry’s system for the mitigation of fraud and corruption risk?

Link to theme

142. This section considers the contribution to be made by a periodic report issued by internal audit containing an evaluation of the ministry’s system for the prevention, detection and reporting of F&C: could such a report influence management, and ultimately, the Minister, to address any shortcomings of related F&C controls?

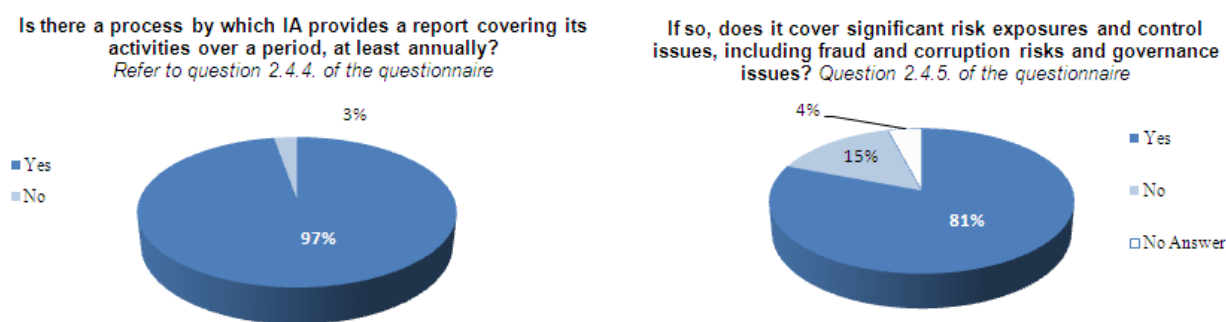
143. It is worth noting that the Standards advocate that the IA activity should “report periodically to senior management and the board ...”, and that such reports should “include “significant risk exposures and control issues, including Fraud risks...””.

Global results from the survey

144. In response to the survey, 61% of ministries acknowledge the existence within their entity of an “Anti –Corruption Policy” (i.e. a framework for prevention and sanction of corruption), which would constitute the reference for audit work on compliance with, and effectiveness of, this policy.

145. In response to the survey, 97 % of IA respondents state they issue an annual report covering activities. Of this group, 81 % report on significant risk exposures and control issues, including F&C risks. Thus, F&C risk is currently not consistently covered in the IA periodic report in surveyed ministries.

Figure 15. Issuance of an IA activity report, and content

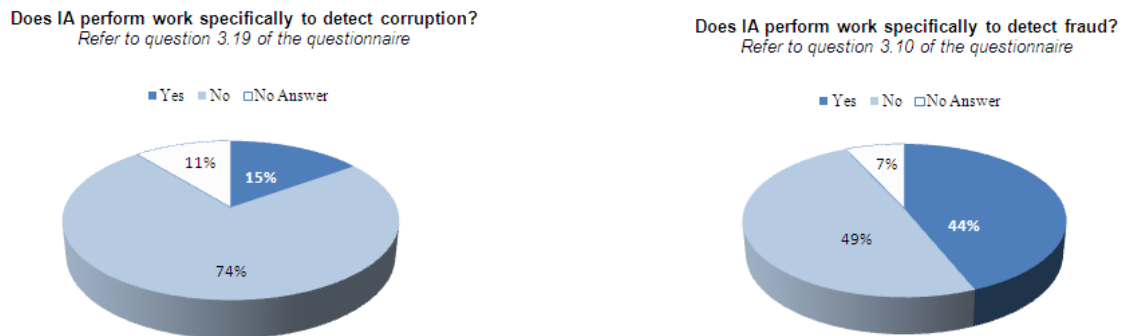


146. This result is consistent with the responses gathered on the reference, or not, in the IA mandate to F&C (see Section 2.1).

147. Nevertheless, when the question is focused on performing audit work specifically to detecting fraud, only 44 % respond positively, indicating that having fraud specified in the mandate is not sufficient for IA to engage in such activities.

148. The same observation can be made in the case of performing work specifically to detect corruption: only 15 % answered positively, indicating that a strong majority is not performing such work.

Figure 16. Specific work performed by IA regarding corruption and fraud



149. Concerning fraud as well as corruption, one likely reason for these low percentages is that another entity within the ministry (see Section 1.3) is mandated to investigate and detect case of F&C.

150. When comparing figures obtained for performing audits where there is a high risk of fraud with those relating to audits performed where there is a high risk of corruption, the difference is significant: 44 % for the first and 15 % for the second. This pattern is consistent with the result of the comparison of the estimate of the degree of involvement in fraud, always higher than for corruption (see Section 2.1). This difference cannot be explained by the existence of a separate entity in charge of investigation of F&C cases, as this entity is usually in charge of both fraud and corruption. As commented by several respondents, there are often cultural factors that underpin the reluctance to mention explicitly audit activities in the field of corruption.

151. It seems that IA services have some untapped capacity to assess the situation of their ministry with regard to the effectiveness of procedures to combat F&C: concerning fraud, 62 % of survey respondents consider the present anti-fraud procedures in their entity to be "sufficient". As for corruption, 66 % of survey respondents are of the opinion that the present anti-corruption procedures to be sufficient.

152. This global result indicates that for a third of the survey participants, current procedures in place in their ministry for preventing and combating F&C are not sufficient.

Country categorization

153. Regarding the frequency of annual reporting on F&C risks:

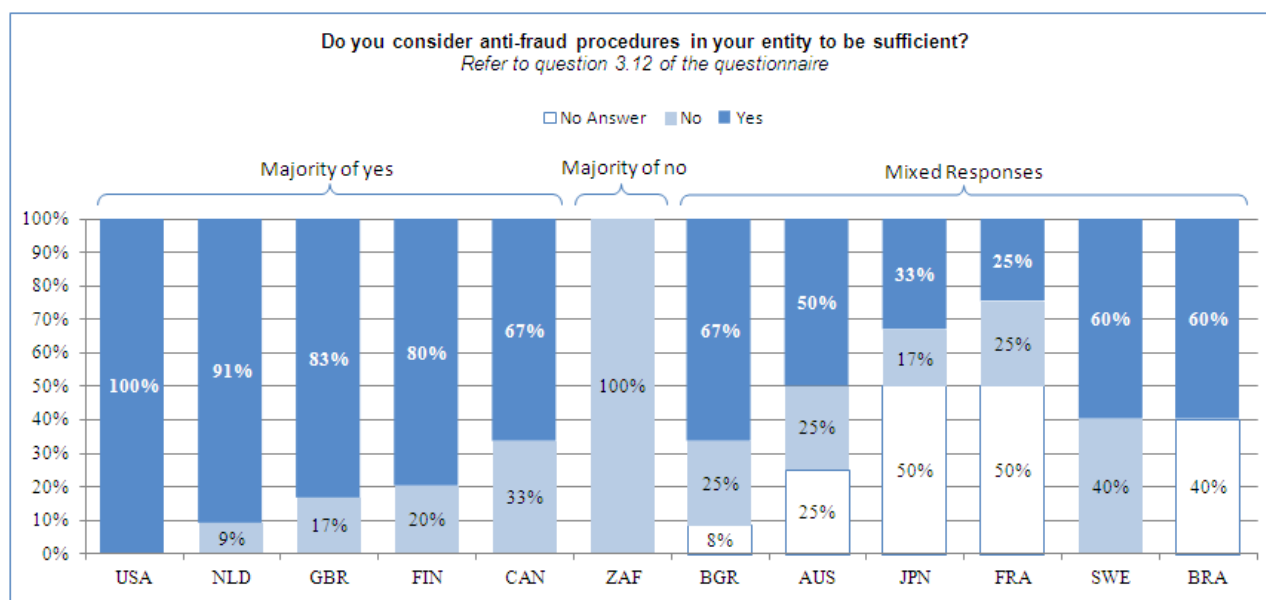
- In a first group of countries - **Bulgaria, France, Netherlands, South Africa, United Kingdom, United States** - close to 100% of sampled IA functions report at least annually on risk and control issues, including F&C risks.
- In a second group - **Australia, Canada, and Sweden** - the majority of sampled IA services include this aspect in their annual report.

- In a third group - **Finland** and **Japan** - a minority of respondents include this aspect in their annual report.

154. Regarding the opinion of IA on procedures in place to prevent and combat fraud: In a first group of countries – **Canada, Finland, Netherlands, United States, and United Kingdom** - more than 80 % of respondents consider that procedures in place to prevent fraud are sufficient.

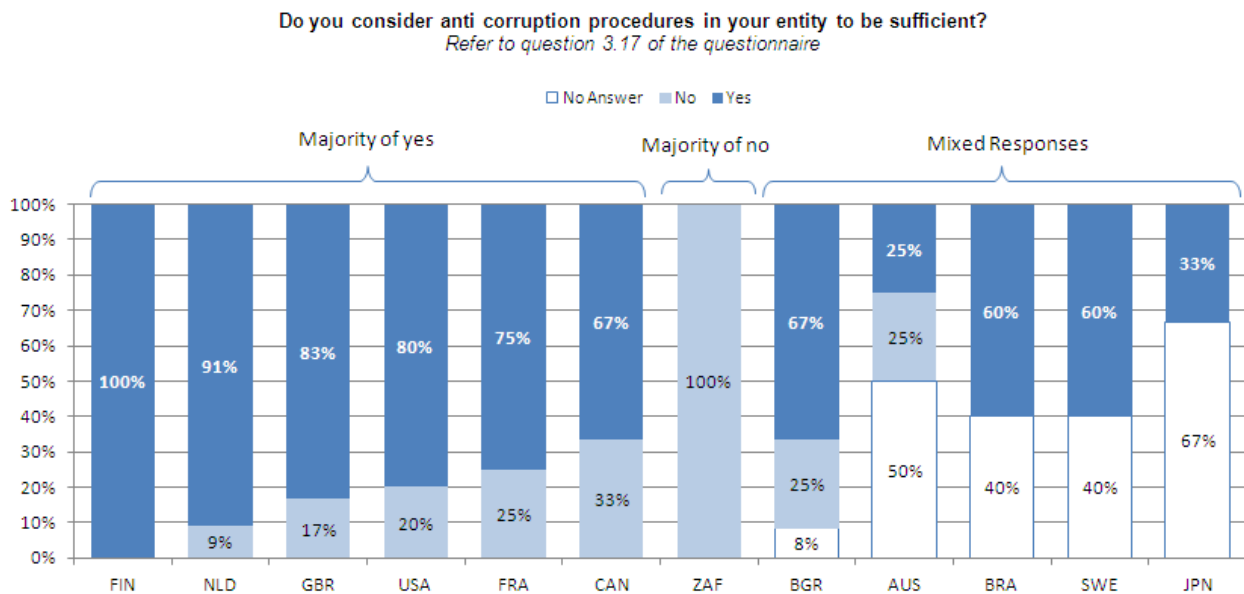
- In a second group of countries – **Australia, Brazil, Bulgaria, and Sweden** - the opinions expressed are divided, with a majority considering that procedures in place are sufficient.
- In a third group of countries - **Japan** and **France** - the number of no responses equals the number of positive or negative opinions.
- In the case of **South Africa**, the respondents unanimously consider these procedures “insufficient”.

Figure 17. Quality of anti-fraud procedures



155. Regarding the opinion of respondents on procedures in place to prevent corruption: In the same first group of countries **Canada, Finland, Netherlands, United States, United Kingdom, plus France**, 75 % or more of respondents consider these procedures as sufficient.

- In a second group of countries – **Brazil, Bulgaria, Sweden** - the majority of respondents have a positive opinion on the sufficiency of these procedures.
- In a third group, **Japan**, the majority of ministries did not respond.
- For **South Africa**, the same respondents consider unanimously these procedures insufficient.

Figure 18. Quality of anti-corruption procedures

156. Given the small size of the sample per country and across countries, no general conclusions can be drawn as to the quality of the procedures in place to prevent F&C in surveyed countries and ministries. However, the previously described results of the survey show that a large majority of respondents are capable of expressing an opinion on the controls in place to prevent F&C.

Specific country cases and best practice

157. The country surveys have revealed a number of best practices:

158. In **Australia**, ministries are required by law to establish a “Fraud Control and Corruption Prevention Plan”, and as this should include provision of a rating of F&C risks, with accompanying action plans to mitigate related risks. As a result, the IA function in one ministry has already audited the F&C prevention framework and has concluded that “this audit helped to more completely incorporate and address corruption risk”.

159. In the **Netherlands**, the Supreme Audit Institution has conducted a nation-wide study on how government departments deal with integrity issues, which could be used by IA services as a “baseline” for their periodic reports.

160. In **South Africa**, one ministry has a “Fraud Prevention Plan” for the prevention and detection of F&C. As part of this, each unit establishes a “Risk Management plan”, incorporating F&C risks, and identifies during risk management workshops the areas requiring corrective actions to improve control effectiveness. The public sector code of conduct is annexed to the fraud prevention plan of this ministry.

Conclusion

161. This kind of audit report, if periodic and systematic, may be considered a powerful means for improving controls to mitigate F&C risk. The regularity of this report should enable stakeholders to ascertain a trend, by comparing current results with those of previous periods. It is worth noting that 90 % of the respondents have a process in place to monitor the implementation of recommendations, and 83 % include in their annual report the status of implementation of these recommendations. This report, either standalone or a section of the IA annual report, should ensure that the attention of both IA and management to this concern is constant.

162. A significant number of respondents (15), representing 21% of the sample signalled that they currently have a plan to improve the annual/periodic reporting. This could provide an opportunity to include this evaluation of the system in place.

163. This periodic reporting ranks high among those factors that respondents consider would most enhance IA contribution to the prevention, detection and reporting of F&C: it is ranked third out of 13 factors in terms of weighted importance, and has been selected as an important subject by over half of all the ministries that answered. For participating IA in **Australian, Canadian, Finish, and United Kingdom** ministries, this aspect has been ranked first in terms of enhancing IA contribution.

Proposed best practice

164. As advocated by the Standards, and as part of its annual reporting to the highest authority in the ministry, IA should systematically include a description of its work and findings relating to the controls implemented by management specifically to address the risks of F&C. Following the practices illustrated by the IA functions in some surveyed ministries, expressing an opinion on the framework in place to prevent F&C, when it exists, may be an additional means of enhancing IA contribution.

Section 2.3 - Inclusion of fraud and corruption issues in the internal control framework

What actions can internal audit undertake to advocate inclusion of measures for the prevention, detection and reporting of fraud and corruption in the internal control framework, and to what extent may the ethics framework contribute?

Link to the theme

165. Fraud and corruption are major risks in the public sector necessitating a robust system of internal controls.

166. Standards relevant to the internal audit profession, notably those of The IIA, to which many sampled ministries refer, advocate that IA “helps an organization [...] by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. To adhere to these Standards, IA is therefore expected to evaluate, and make recommendations for the strengthening of, the internal control framework (ICF). It should be noted that there is yet no generally accepted definition of the content of an ICF, and that many respondents understand this concept as mainly covering financial control and related activities.

Global results from the survey

167. The survey results show that 91 % of the 73 respondents acknowledge the existence of an ICF corresponding or similar to that defined by COSO; 5 % indicated that there was no such framework and 4 % did not respond.

168. The cases of absence of a formalized ICF may possibly explain the non negligible number of respondents who could not state whether or not, in their ministry, there is segregation of duties defined for:

- Receipt of goods/services- 12, 5 %;
- Payment request and payment authorization - 10 %;
- Periodic rotation of employees in payment authorization functions - 19 %.

169. For 87 % of ministries surveyed, management is responsible for maintaining internal controls, however, this involvement of management decreases to 75% when considering the prevention of F&C. Nevertheless, 15 % state that management does not have specifically assigned responsibility for this risk, and 7 % did not respond.

170. This difference between the responsibility for maintaining internal controls and the responsibility for the prevention of F&C raises the question of the quality of an ICF which does not specifically address, among other risks, the risk of F&C.

171. The fact that 44% of respondents indicate knowledge of intentions to strengthen their ministerial ICF indicates an opportunity for IA to make recommendations for specific controls to address better the risks of F&C.

172. The recommendations that IA may make should take into account existing tools:
- the survey shows that in 87 % of Ministries, there exists a code of conduct/code of ethics, either for the ministry or as a whole of government policy; 10 % state that such code is not established;
 - 77 % of ministries confirm the existence of ethics training or awareness initiatives;
 - 82 % of ministries state that they have a conflict-of-interest policy; and
 - 45% of respondents mention the existence of managers' assertions, mainly linked to some form of financial statements certification.

Specific country cases

173. Of 5 ministries surveyed in **Finland**, 3 state that management has no responsibility vis-à-vis the prevention of F&C. These 3 ministries do not possess a code of conduct/code of ethics and do not provide ethics training to their staff.

174. The IA activity in one ministry in **Bulgaria** has signalled that it has already audited the ethics framework.

175. In **France**, the situation varies between ministries. 2 out of 4 have established a fully fledged ICF, with a strong emphasis on ethics awareness and training. One is acting to establish a unified ICF given that separate units within the ministry each have their own risk assessment methods, ethics framework, and IA or internal inspection (inspector general) mandates and methods.

176. In **Canada**, one IA ministerial function has implemented a systematic and periodic assessment of the control environment of the different units and agencies for which the ministry has financial responsibility.

177. In one ministry in the **Netherlands**, all employees are subject to a self-assessment integrity test; the results of which are used by IA to identify risk areas for possible inclusion in its work plan.

178. In **South Africa**, one IA function has indicated its intention to implement an 'Integrity Barometer', whilst another has highlighted the complementarities of IA with the separate internal control function which, among other tasks, co-ordinates and oversees the development of action plans by audited units to address the findings and recommendations of internal and external auditors.

179. In the **United States**, where the F&C prevention and detection framework is described by respondents as highly comprehensive and mature, in order to minimize the potential for conflicts of interest one inspector general has indicated plans to separate in different agencies the revenue collection function from the leasing function and from the inspection function.

Conclusion and proposed best practice

180. As advocated by the Standards, IA could address directly the ICF, (i) by evaluating the design and quality of the framework; (ii) by recommending actions to establish or strengthen provisions in the field of ethics, conflict-of-interest policy, managers' assertions, or related provisions

which would clearly state and explain that these wrongdoings will be sanctioned; and (iii) by performing specific audits to assess *compliance*.

181. Of course, in every country and ministry surveyed, legal provisions are in force to sanction F&C. Responses to the survey nevertheless indicate that IA may sometimes highlight the need for guidance, explanations and illustrations on this issue, e.g. via the code of conduct/code of ethics.

182. Once such an ICF is established, according to the Standards, the duties of IA include to “evaluate the [...] *effectiveness* of the organization’s ethics-related objectives, programmes and activities”.

Chapter 3: Internal audit proficiency and professionalism

What action may be taken to enhance internal audit staff capacity to contribute to the prevention and detection and reporting of fraud and corruption?

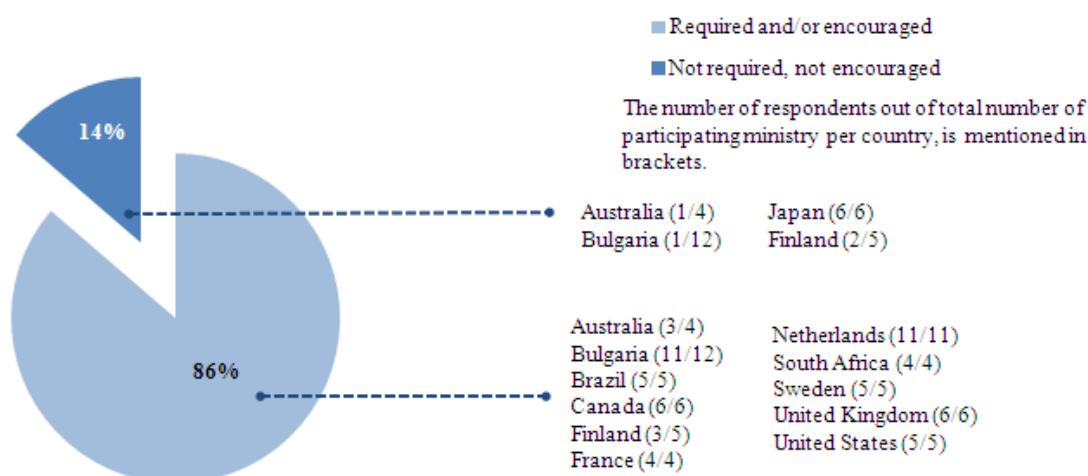
Link to theme

183. Three models were presented in Section 1.3 regarding fraud and corruption (F&C) responsibilities: *i*) these can be included in the mandate of internal audit (IA), *ii*) in the mandate of a specialised department within the ministry but separate from IA, or *iii*) in the mandate of experts, usually designated as inspectors or investigators, outside the ministry. One of the advantages highlighted by some respondents of having a separate unit in charge of F&C issues is that such a unit has specific competencies. Hence the question: are there ways to improve IA professionalism so that it may increase its contribution to prevention, detection and reporting of F&C?

Survey Results

184. As shown in the diagram below, in a large majority of participating ministries, i.e. 63 out of 73 (86%), IA staff is required or encouraged to have specific professional qualifications.

Figure 19. Status of relevant professional qualifications for internal auditors



Specific country cases

185. In **Japan**, specific qualifications are not required for IA staff. Internal auditors nevertheless benefit from training courses provided by the Board of Audit (the Supreme Audit Institution), notably with on accounting transactions, audit techniques and understanding of the financial audit report.

Field of qualifications required and/or encouraged

186. Among the participating ministries in which IA is requested and/or encouraged to possess relevant professional qualifications, the field of these qualifications differs as shown in the table below:

Figure 20. Fields of qualifications required and/or encouraged for internal auditors

Fields of qualifications	Number of ministries that selected or not the following areas		N/A (*)	Total
	selected	did not selected		
Audit	62 85%	1 1%	10 14%	73 100%
Accounting/Finance	50 68%	13 18%	10 14%	73 100%
IT	48 66%	15 21%	10 14%	73 100%
Investigation	33 45%	30 41%	10 14%	73 100%
Other	21 29%	42 58%	10 14%	73 100%

(*) N/A refers to non applicable answers, namely ministries in which professional qualifications are not requested, not encouraged.

187. In the majority of participating ministries, internal auditors are required and/or encouraged to have knowledge of audit, but also of related areas such as accounting, finance, IT, and investigation. In **Canada**, the approach of most respondents is to encourage internal auditors to obtain qualifications in several areas so that the internal audit service covers all these fields of qualifications.

188. A further 21 surveyed ministries reported that they require or encourage also professional qualifications other than those related to audit, accounting, finance, IT, or investigation. For example, in **Bulgaria**, IA may also have a qualification relating to regulations, to specific activities of the ministry, or to European Union funds. In **South Africa**, risk management is an area in which IA is encouraged to be qualified. In the **United Kingdom**, some ministries quoted other qualifications such as counter fraud work (which includes prevention, detection and investigation of F&C), human resource management, procurement management and project management.

Nature of qualifications required and/or encouraged

189. Among the ministries in which internal auditors are required or encouraged to possess professional qualifications, the nature of such qualifications differs: some ministries prefer a national designation, whereas others refer to qualifications of professional institutes.

190. In **Bulgaria**, according to 2 respondents, a national certificate on internal audit in the public sector issued by the Ministry of Finance is requested. In **France**, a graduate diploma in accounting and finance is sometimes required for internal auditors, and in some cases, they are also required to take a competitive entry examination for an IA position within the ministry. According to two respondents, these pre-requisites are complemented by specific training courses on audit, both theoretical and practical, when taking the position. This training is often provided by IFACI.

191. In several countries, namely in **Australia, Canada, Sweden, the United Kingdom, the United States**, qualifications issued by specialized professional institutes are preferred. For example:

- For audit activities: Certified Internal Auditor (CIA) and Certified Government Auditing Professional (CGAP), both of them being issued by The IIA;
- With regard to accounting and finance, the Chartered Accountant (CA), the Certified Public Accountant (CPA) and the Certified Government Financial Manager (CGFM) designations have been quoted;
- The Certified Information Systems Auditor (CISA) certification is often required for staff specialized in IT, and encouraged for other staff;
- The Certified Fraud Examiner (CFE) designation awarded by the Association of Certified Fraud Examiners is often required for investigators;
- Certification in Control Self-Assessment (CCSA) awarded by The IIA has also been quoted by one Canadian ministry.

192. The table below shows the number of times these specific qualifications were quoted:

Figure 21. Qualifications awarded by specialised professional institutes spontaneously reported by respondents

	Number of times these qualifications were explicitly quoted by respondents			
	CIA or CGAP	CA or CPA or CGFM	CISA	CFE
Australia	1	2	1	-
Canada	2	6	1	1
France	1	-	1	-
Sweden	5	-	4	-
United Kingdom	-	1	-	-
United States	2	4	1	2
Total	11	13	8	3

193. Internal auditors are not systematically requested or encouraged to have qualifications relating to fraud. However, their awareness on fraud issues is raised through specific training. 38 respondents out of 73 (52%) quote that such training is provided to IA staff, even though IA mandate is usually not to investigate cases of fraud, but rather to evaluate the risk of fraud and the efficiency of related internal controls as part of individual audits.

Other factors contributing to IA professionalism

194. Additional tools contribute in increasing IA professionalism, among them, an external and independent evaluation of the function. A substantial majority of respondents, namely 81%, states that their service has put in place such a mechanism. It is for example the case for 3 **Australian** ministries out of 4, given that the remaining ministry plans to implement one for the coming year. In **France**, 3 ministries out of 4 have an evaluation of the service, for example in the form of an attestation provided by external audit or by external evaluators as part of ISO 9000 certification. The principle of a quality assurance programme is planned to be extended to all ministries as part of forthcoming reforms.

Conclusion and proposed best practice

195. The Standards require that internal auditors as well as the IA activity possess the knowledge, skills and other competencies needed to perform their responsibilities, individually or globally. With regard to fraud, it is clearly requested that internal auditors have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed in the organization, but are not expected to have the same expertise as a person whose primary responsibility is to detect and investigate fraud. Based on practices which concur with the Standards, the following proposals for action could be considered by ministries:

- Audit professional qualifications should be requested to increase auditors' ability to evaluate F&C risks, and to detect F&C alerts as part of the execution of the work plan;
- IA should possess most competencies related to audit, namely accounting, finance and IT system. Indeed, these are the tools through which alerts of F&C can be identified;
- Internal auditors should be trained in order to sharpen their awareness on F&C issues. This would help in evaluating the design and effectiveness of specific internal controls.
- IA could benefit from greater professionalism by undertaking periodically an independent external assessment, in the form of a quality assurance programme as recommended by the Standards, as is the case in a significant majority of ministries.

* * * * *

Annex A

Methodology - management and consultation

In May 2009, the Organisation for Economic Co-operation and Development (OECD) launched a project on the theme of Internal Audit and Internal Control. The objective of the project was to explore the role of internal control and internal audit as tools to preserve integrity in the public sector.

The project was lead by the OECD Internal Audit and OECD Directorate on Public Governance and Territorial Development. The project was conducted in the following main stages

- **Establishment of a project steering committee.** This committee provided guidance on the direction of the project. It comprised of representatives from government and professional associations. Australia, Bulgaria, France, the Netherlands, and Sweden were represented by government. Professional associations were represented by The Institute of Internal Auditors (International) and country internal audit associations in France and Japan.
- **Development and piloting of a survey instrument.** A survey questionnaire comprising 71 questions was drafted by OECD in May- June 2010 around the following questions:
 - How can internal control be used to mitigate risks within the central public administrations?
 - How is transparent reporting and follow-up by internal audit used to mitigate risks of fraud and corruption?
 - How can countries develop capacity and professionalise internal audit to promote integrity and prevent fraud and corruption?
- The survey instrument was piloted in four countries: *i*) Australia, *ii*) France, *iii*) Japan, and *iv*) the United States. During the pilot, one public organisation in each of these four countries was approached to gather feedback on *i*) their readiness to respond to the questionnaire in a frank and open manner; *ii*) relevance, clarity, and interest of the proposed questions; and *iii*) to provide more information as to time estimated for questionnaire completion. Feedback and comments from the pilot was used to refine the survey instrument.

- **Collection of data from volunteering public organisations.** The English version of the final questionnaire was sent 1 July 2010 to countries. A minimum of 4 public organisations from each country were sampled. A co-ordinator was selected from each country to assist in the collection and following up of respondents.

The questionnaire included an assurance to public organisations that the intention is not to rank the countries sampled but to identify the practical challenges faced by professionals in their actions to prevent and combat fraud and corruption. Therefore, whilst the identity of the respondents has been necessary during the project in order to clarify points, and except for country, the anonymity of individual respondents is guaranteed in terms of disseminating the final results of this survey.

Responses were recorded and analysed for each country. Clarifications were requested when needed, by email or by phone. All comments have been taken into account for the analysis.

- **Preparation of internal audit profiles.** Country profiles were prepared by the OECD based on the analysis of the information provided in each public organisation's responses to the survey instrument. The purpose was to give a visual representation of: *i*) the extent to which internal audit reports to the highest authority in the public organisation; *ii*) if an inspector general, or similar specialised entity, operates separate from internal audit and specifically mandated to investigate fraud and corruption in the same public organisation; *iii*) if internal audit reports to an independent oversight body such as an audit committee; *iv*) the degree to which internal audit is involved in detecting, preventing, and reporting corruption; *v*) the degree to which internal audit is involved in detecting, preventing, and reporting fraud; and *vi*) the intensity of relationship between internal and external audit.

Draft country profiles were sent to country co-ordinators for review and comment during December 2010 and again for final validation in March 2011.

- **Follow-up Questionnaire.** A Follow-up Questionnaire was sent to each participant in December 2010 requesting that they prioritise the four factors out of 13 proposed that they consider as the most important or crucial for success in enhancing contributions to preventing, detecting, and reporting of fraud and corruption, according to their own experience and current situation.
- **Preparation of final report.** Between January to March responses to the 71 questions and to the follow-up questionnaire, together with the country profiles, were analysed by OECD. The draft report was sent to all country co-ordinators on 4 March 2011.
- **Workshop**

The work by the OECD Secretariat was lead by Edouard Chansavang, Lucía García Gutiérrez, Anne-Marie Leroux, Dominique Pannier, and Peter Stokhof (Internal Audit Division), and Janos Bertok, Natalia Nolan Flecha, Jordan Holt, James Sheppard, Christian Vergez (Directorate for Public Governance and Territorial Development). In addition, assistance was provided in creating the database by Gabrielle Milosic and Katarzyna Weil.

Special thanks are also given to the individuals who participated in the steering group and as country co-ordinators: Darren Box (Australia); Francisco Eduardo de Holanda Bessa and

Ronald da Silva Balbe (Brazil); Tzvetan Tzvetkov (Bulgaria); Guylaine Leclerc (Canada); Jan Holmberg and Matti Mikola (Finland); Nicolas Chappon, Jean-Claude Diquet, and Danièle Lajoumard (France), Sakiko Sakai and Kyoko Shimizu (Japan), D.K. Kotteman (Netherlands), Claudelle Von Eck and Charles Nel (South Africa), Elisabeth Styf (Sweden); Chris Butler and Karen Parsons (United Kingdom); Beryl Davis, Richard Chambers (IIA), Béatrice Ki-Zerbo and Louis Vaurs (IFACI).

Annex B

Methodology - degree of involvement of internal audit in preventing, detecting, and reporting of fraud and corruption

The degree of involvement of internal audit in preventing, detecting, and reporting of fraud and corruption is based on a combination of responses to 5 survey questions relating to corruption and 7 survey questions relating to fraud:

Corruption

- Question 2.36: Does the internal audit mandate specifically include reference to fraud? corruption?
- Question 3.5: Provide the number of *i*) fraud and *ii*) corruption cases reported over the past twenty-four months.
- Question 3.14: In the case of corruption suspected or revealed in your entity, would internal audit be involved in its investigation? If not internal audit, who would investigate?
- Question 3.17: Do you consider anti-corruption procedures in your entity to be efficient?
- Question 3.19: Does internal audit perform work specifically to detect corruption?

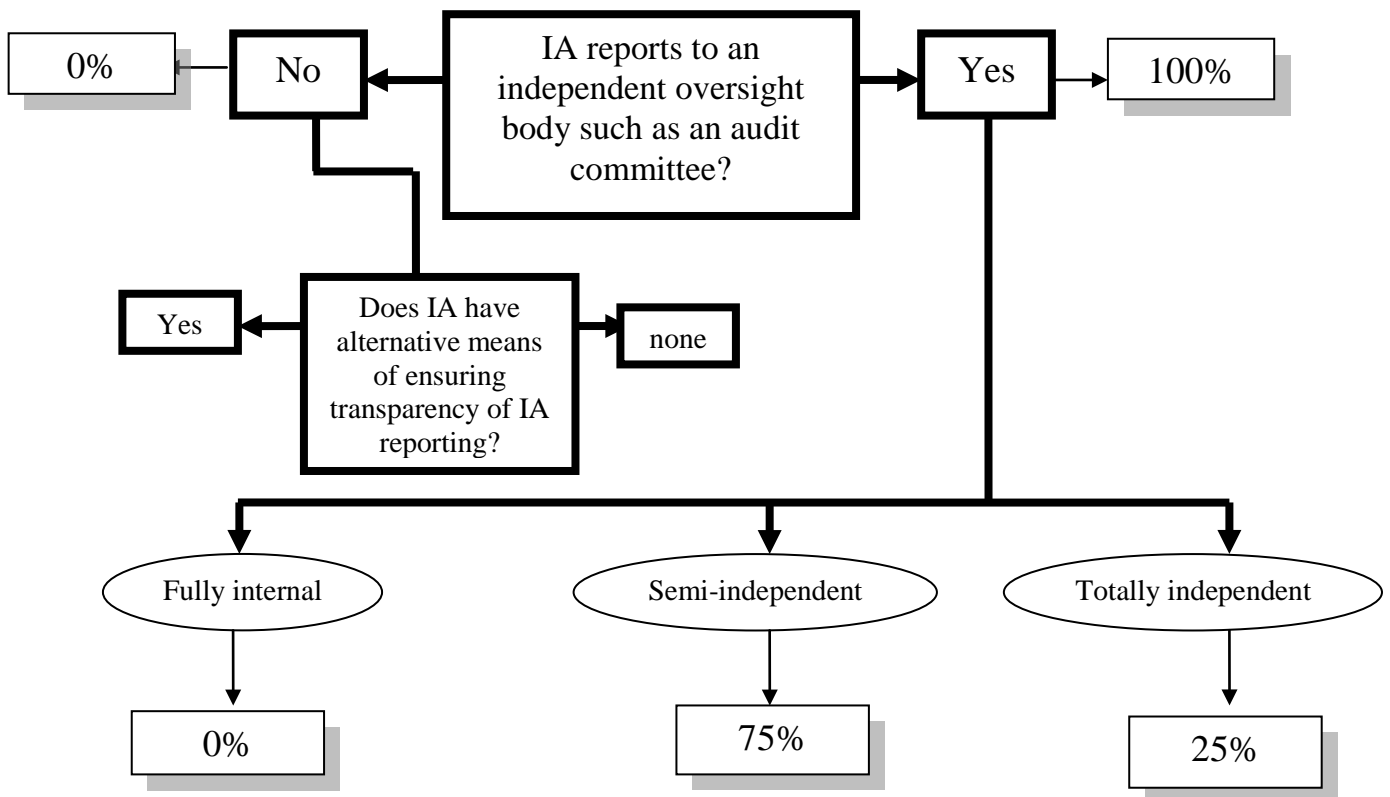
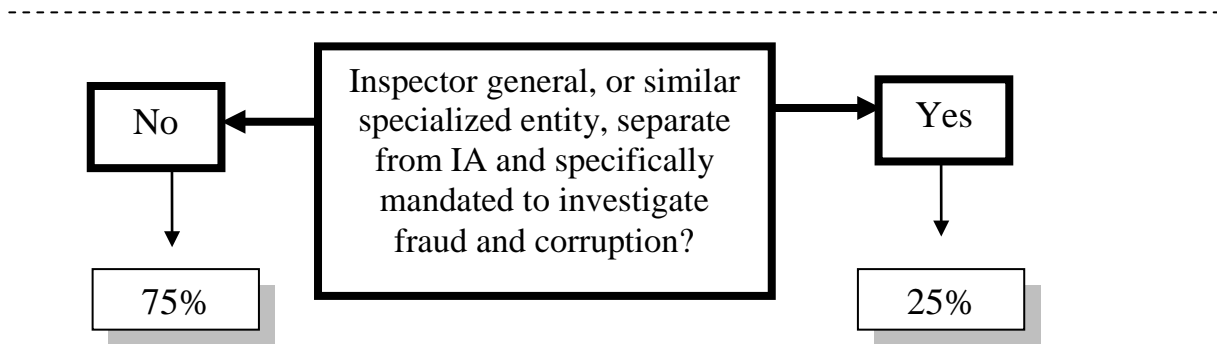
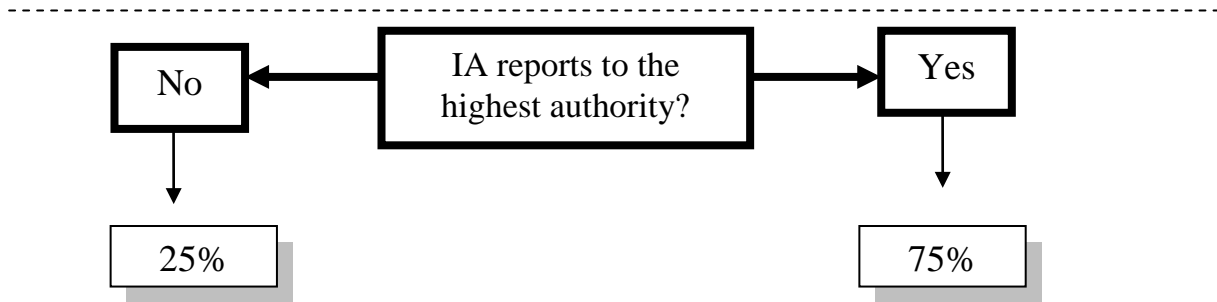
Fraud

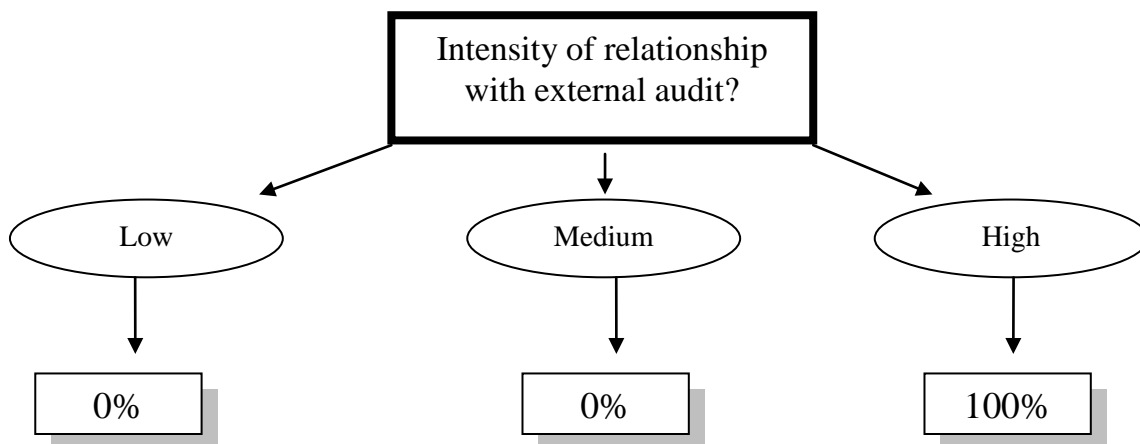
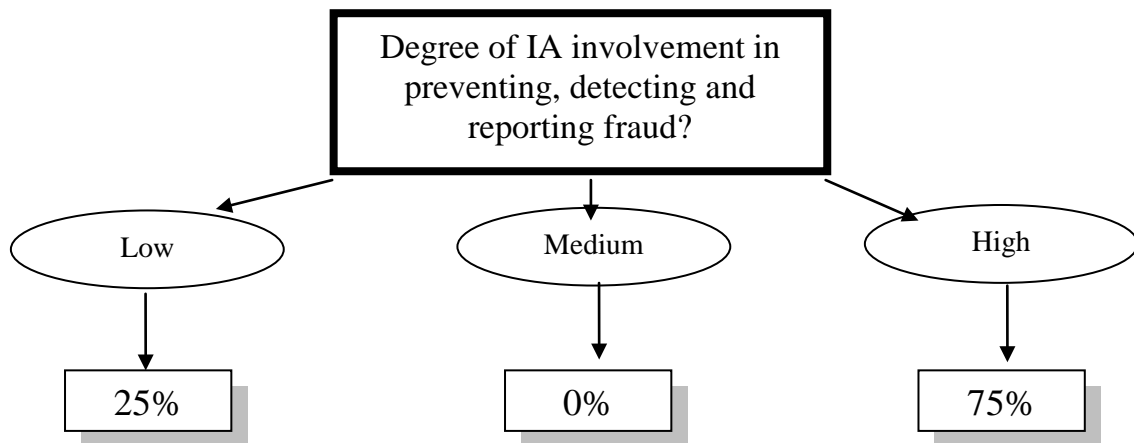
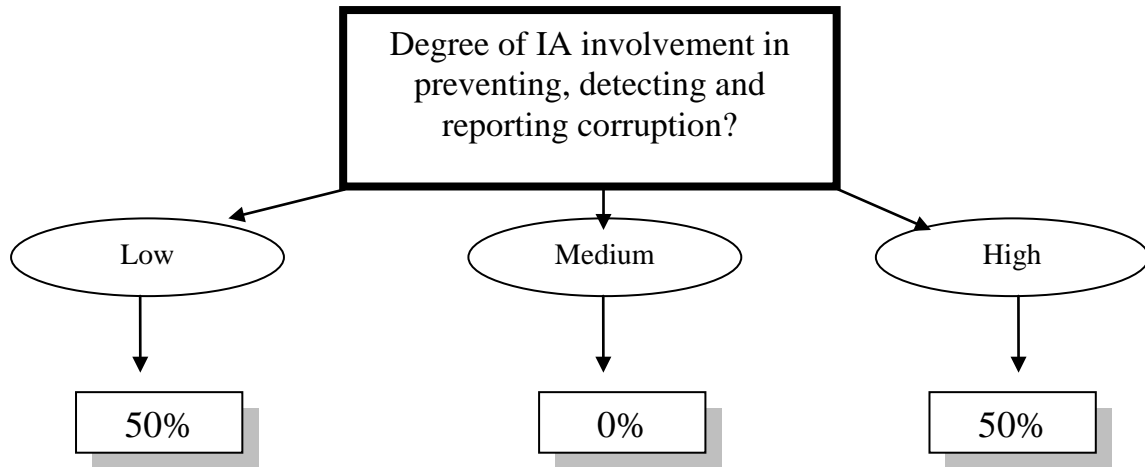
- Question 2.36: Does the internal audit mandate specifically include reference to fraud? corruption?
- Question 3.5: Provide the number of *i*) fraud and *ii*) corruption cases reported over the past twenty-four months.
- Question 3.8: If fraud is suspected or revealed in your entity, would internal audit be involved in its investigation?
- Question 3.9: Has internal staff received specific fraud training?
- Question 3.10: Does internal audit perform work specifically to detect fraud?
- Question 3.11: If so, provide examples of such work.
- Question 3.12: Do you consider anti-fraud procedures in your entity to be sufficient?

Annex C

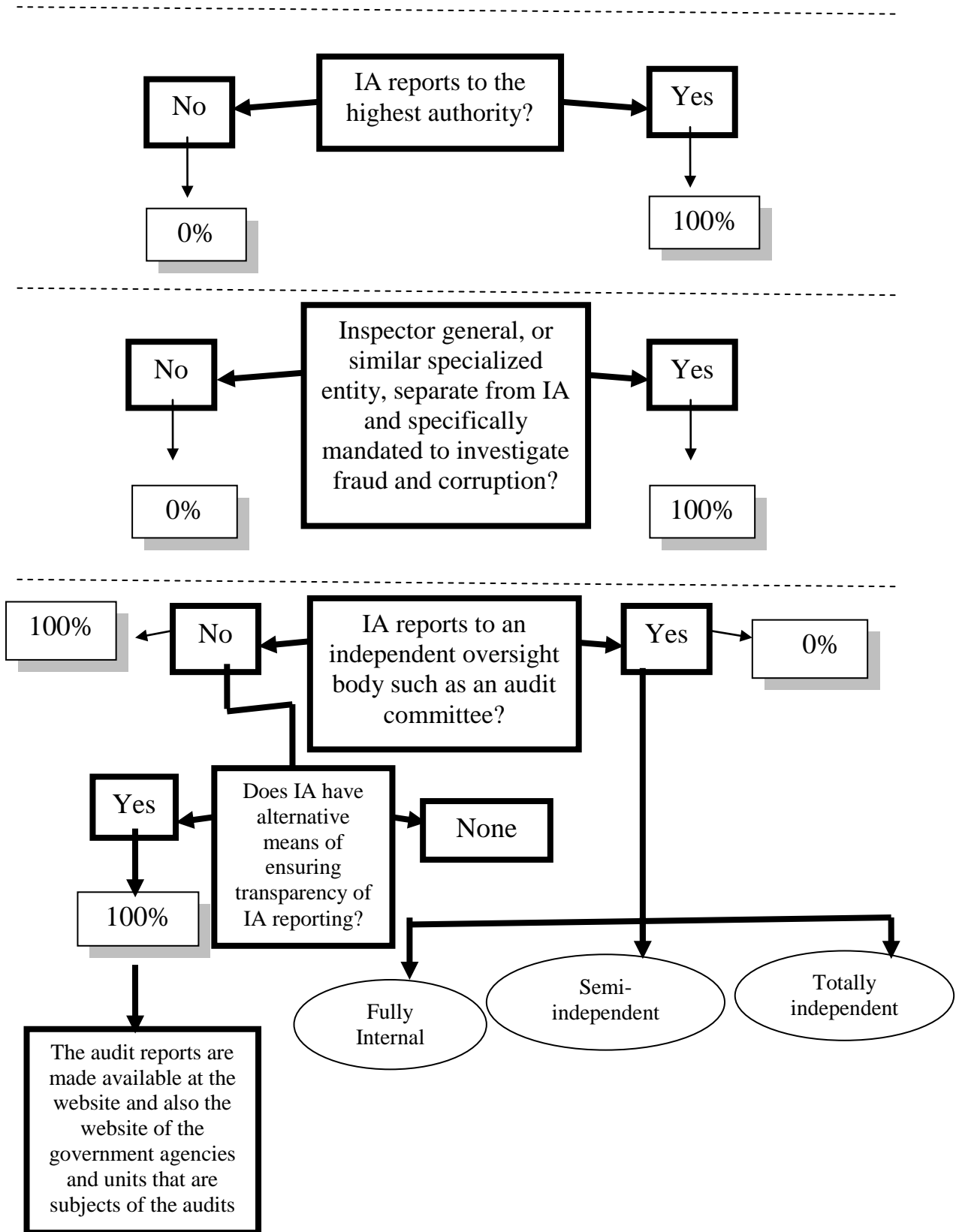
Country profiles

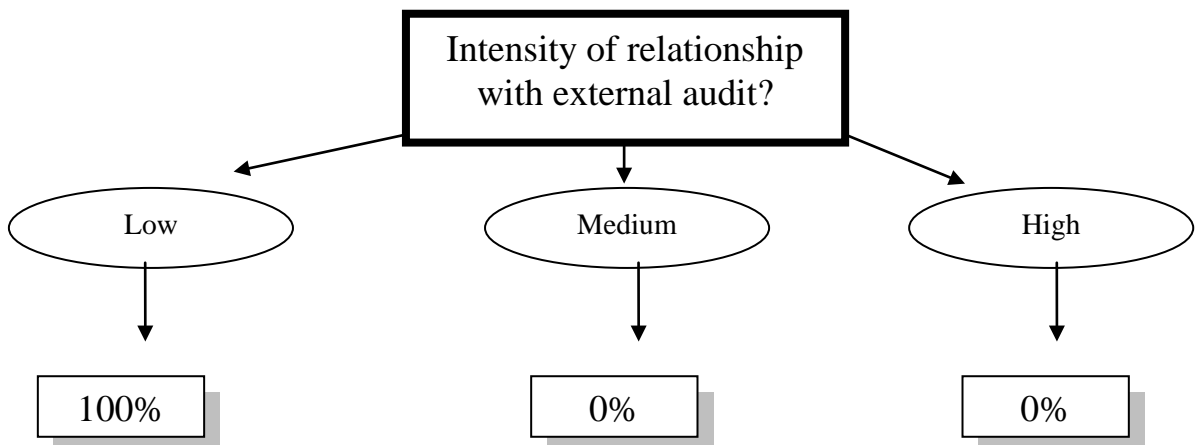
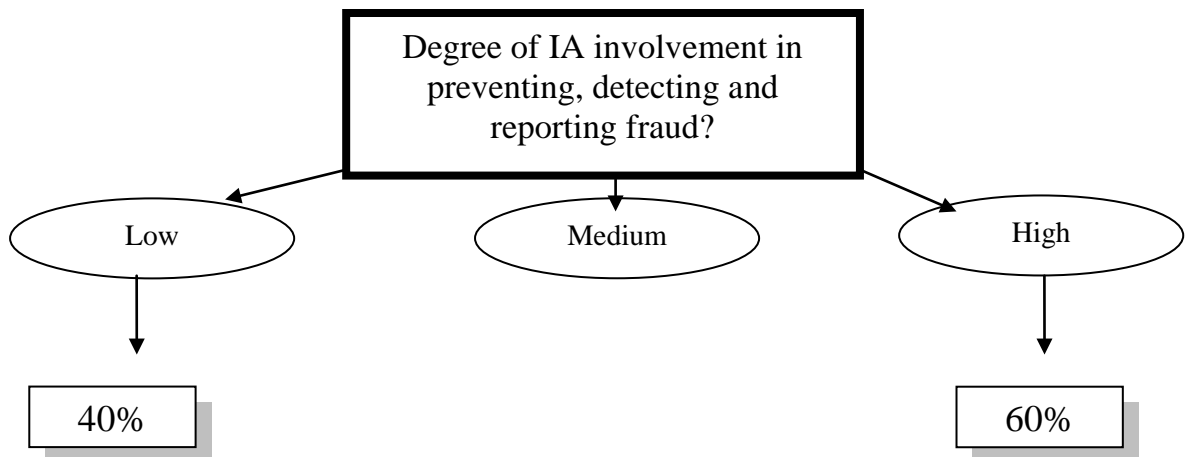
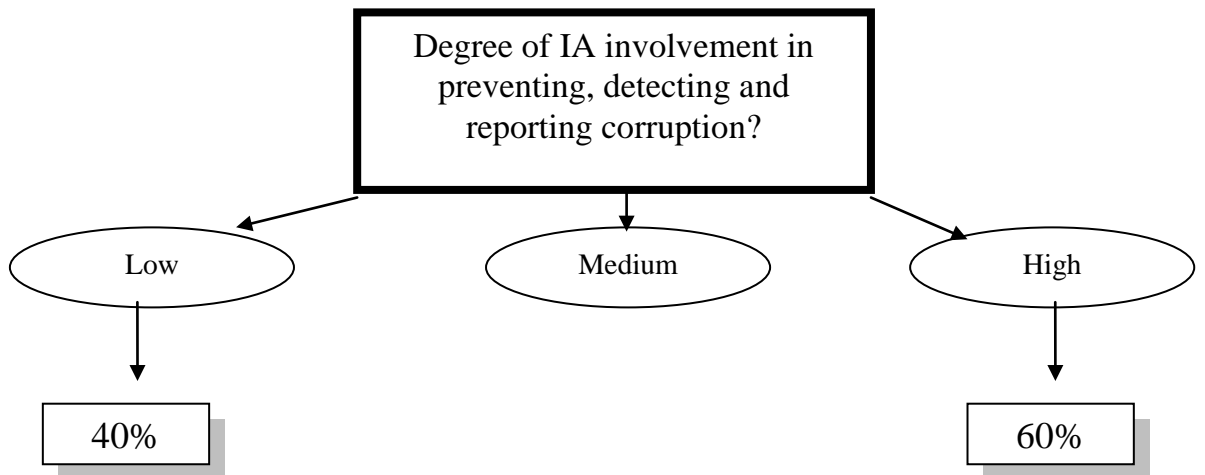
Australia



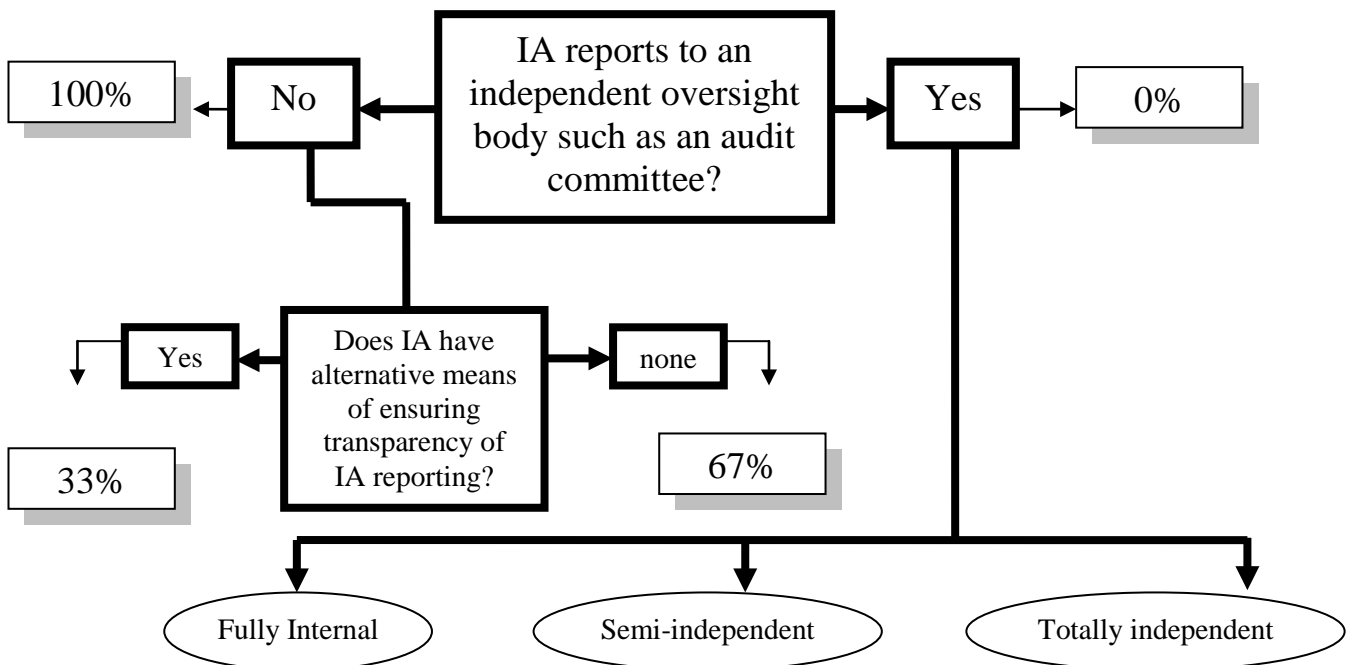
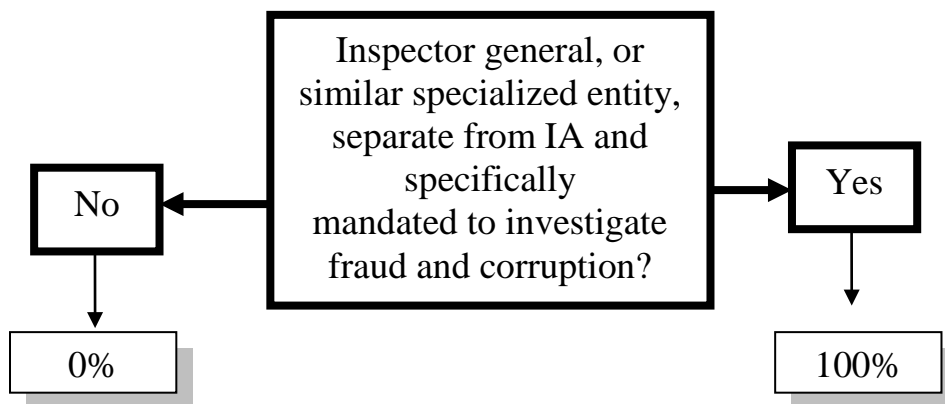
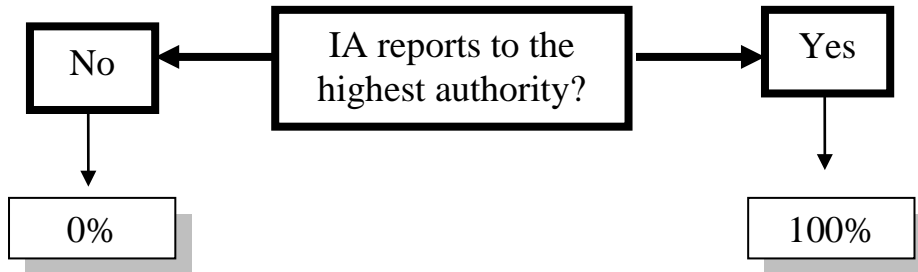


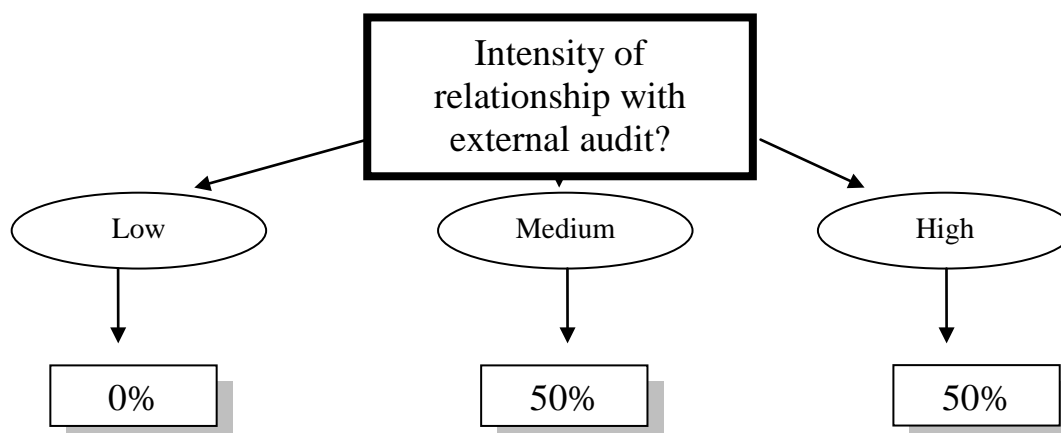
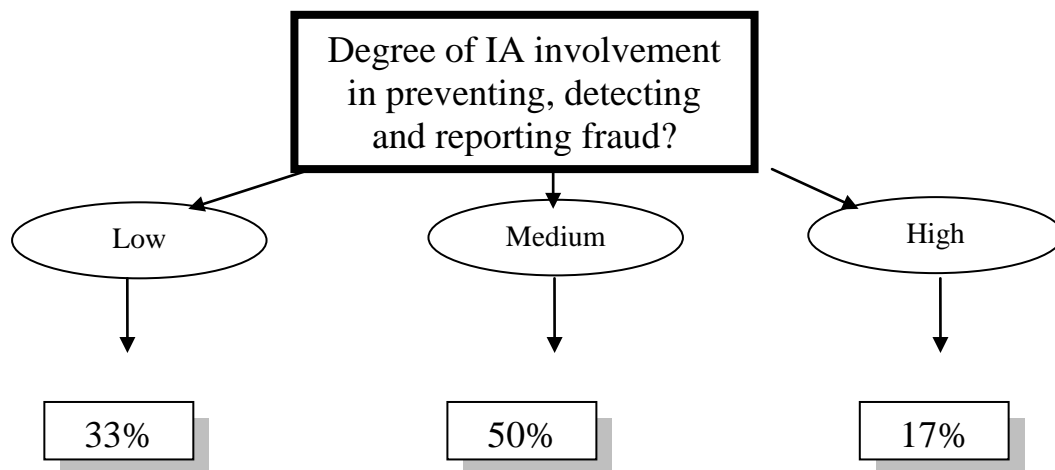
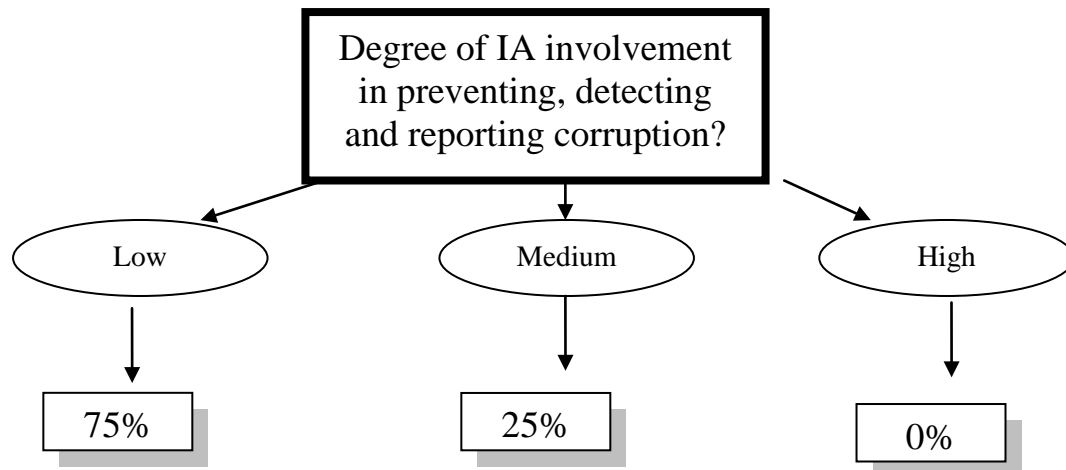
Brazil



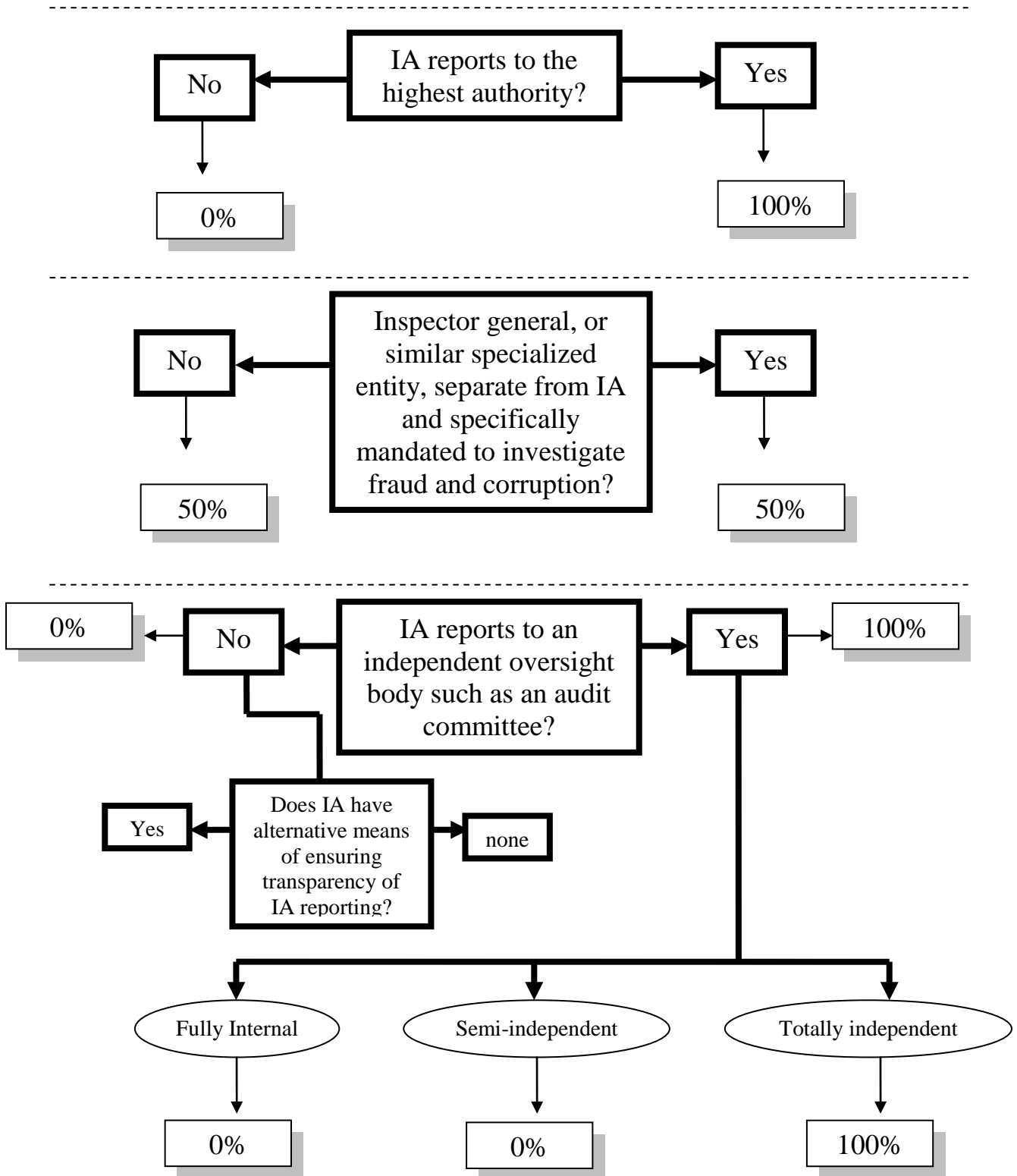


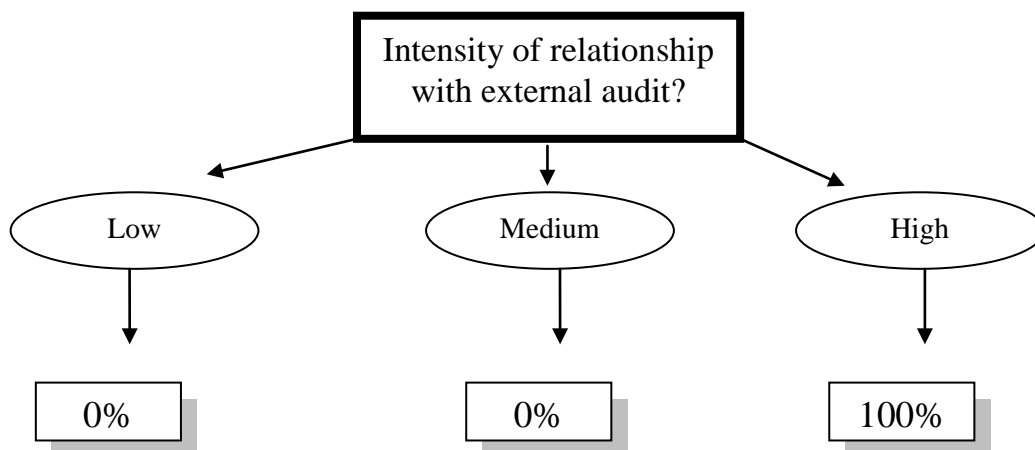
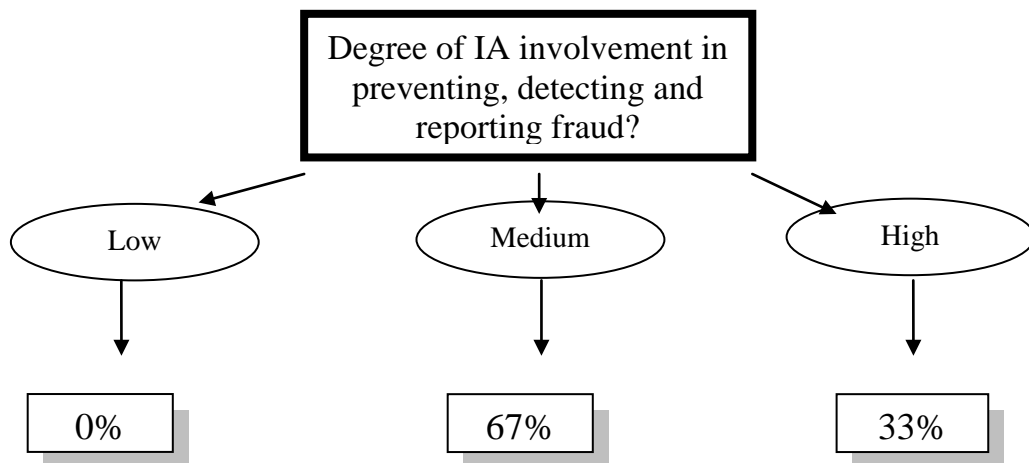
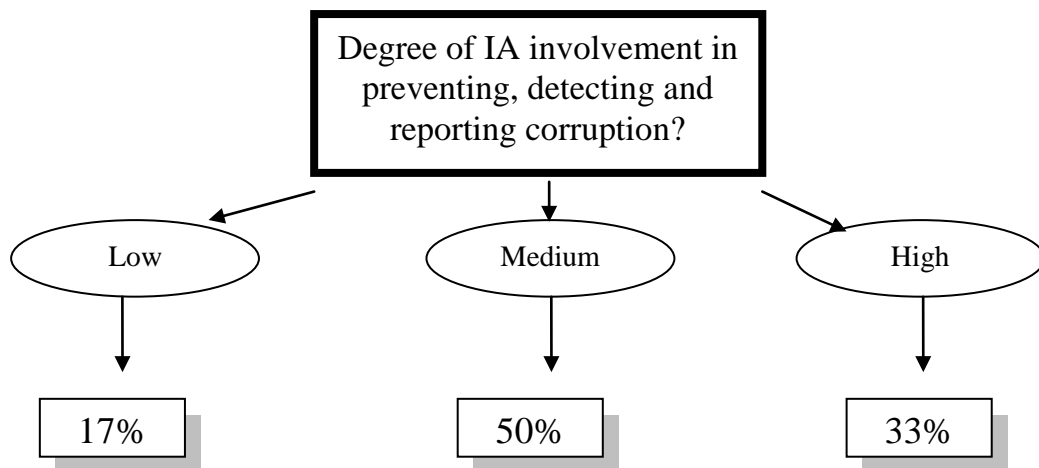
Bulgaria



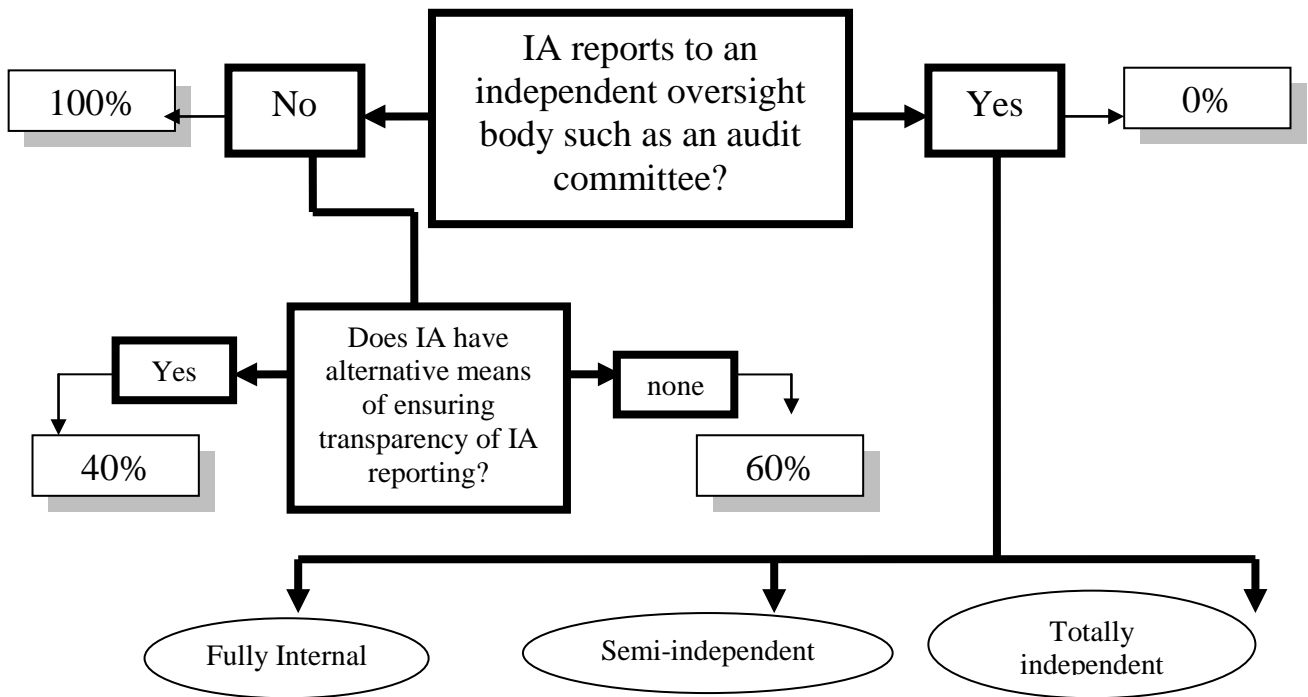
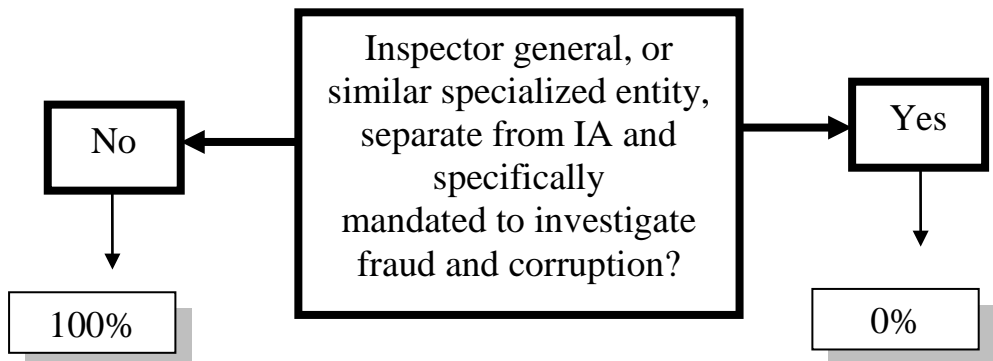
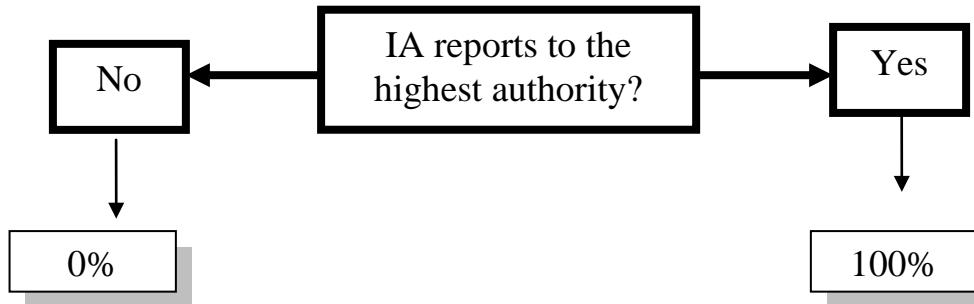


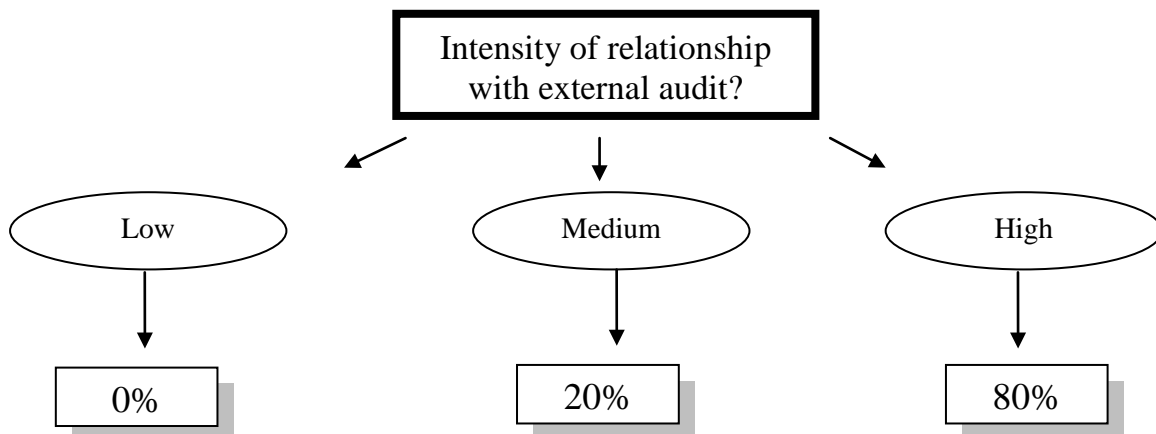
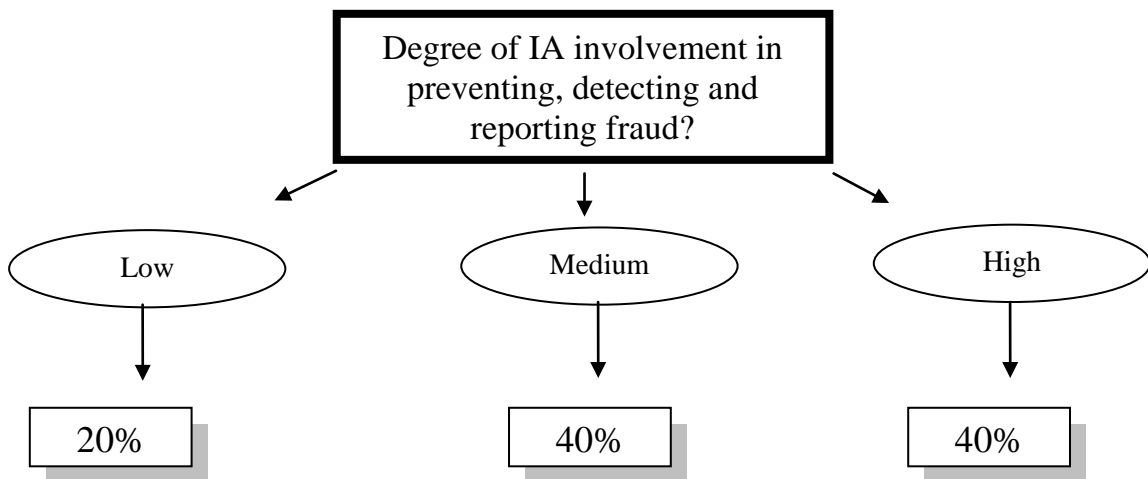
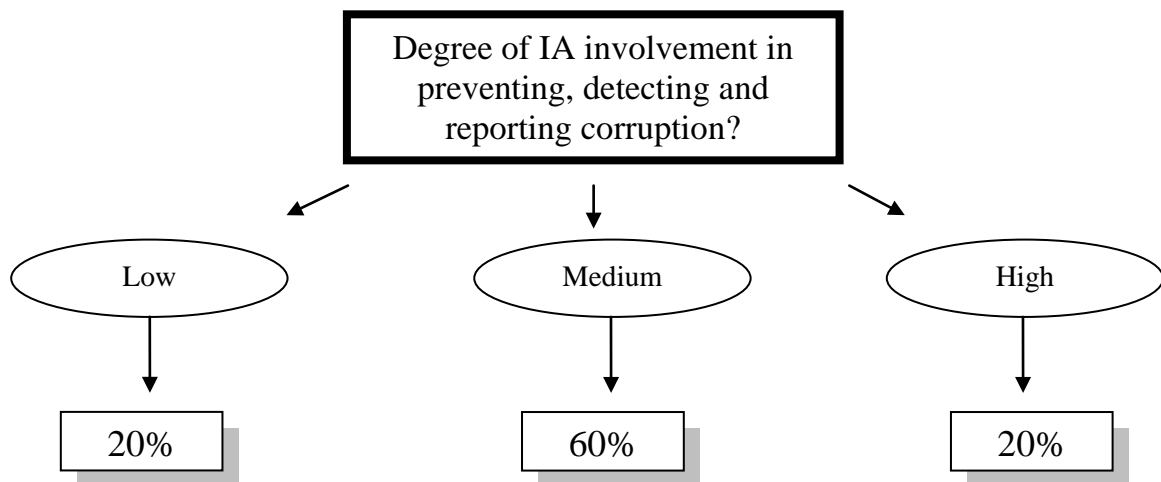
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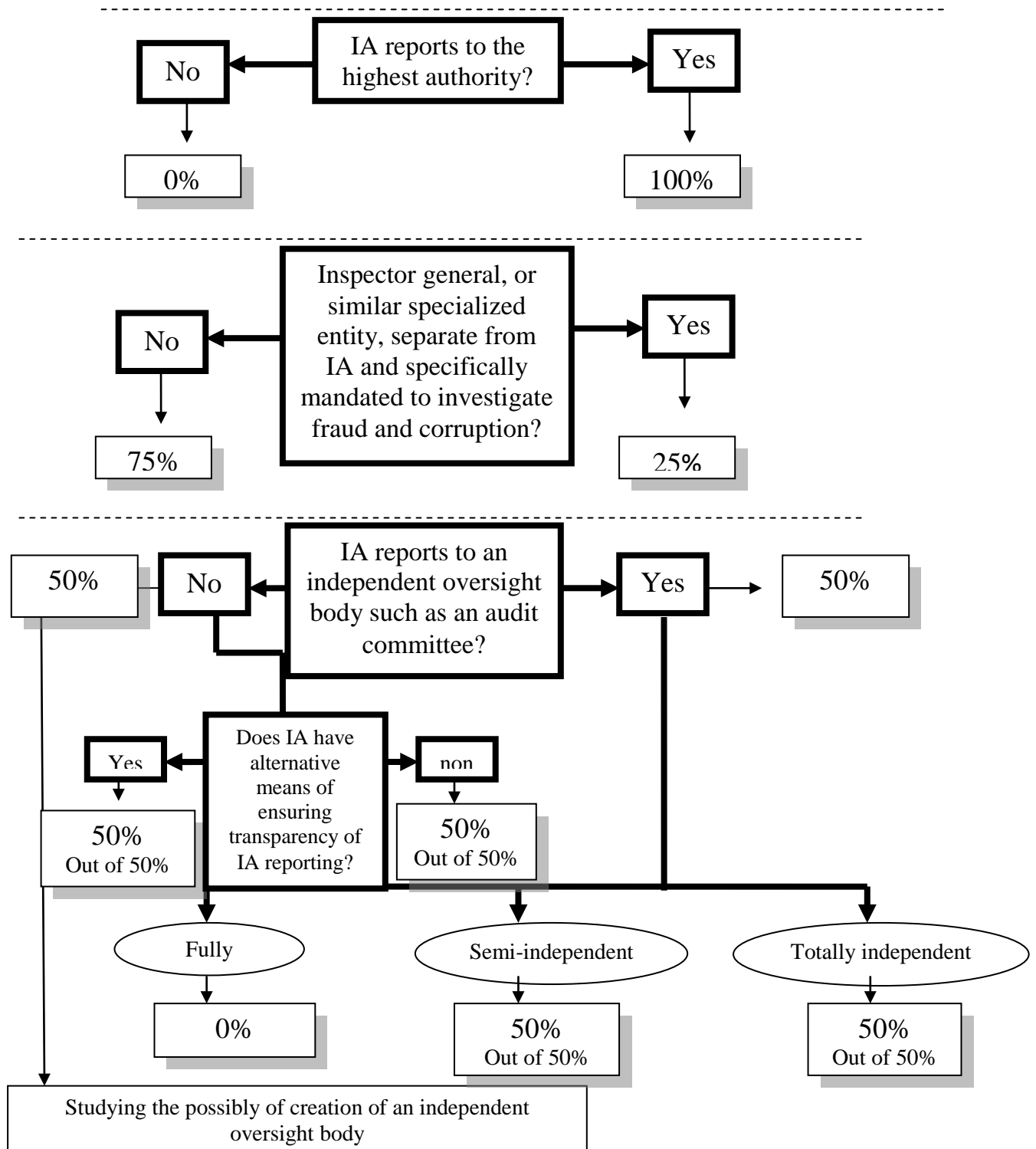


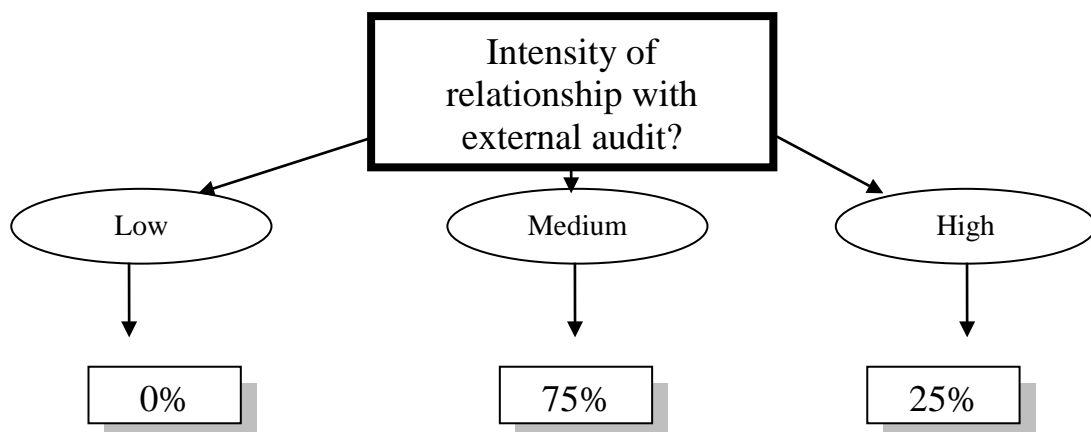
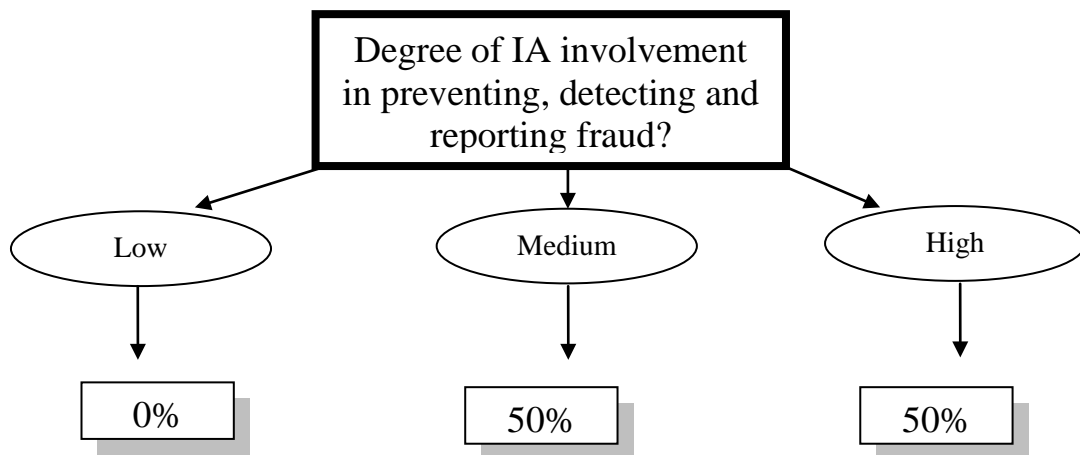
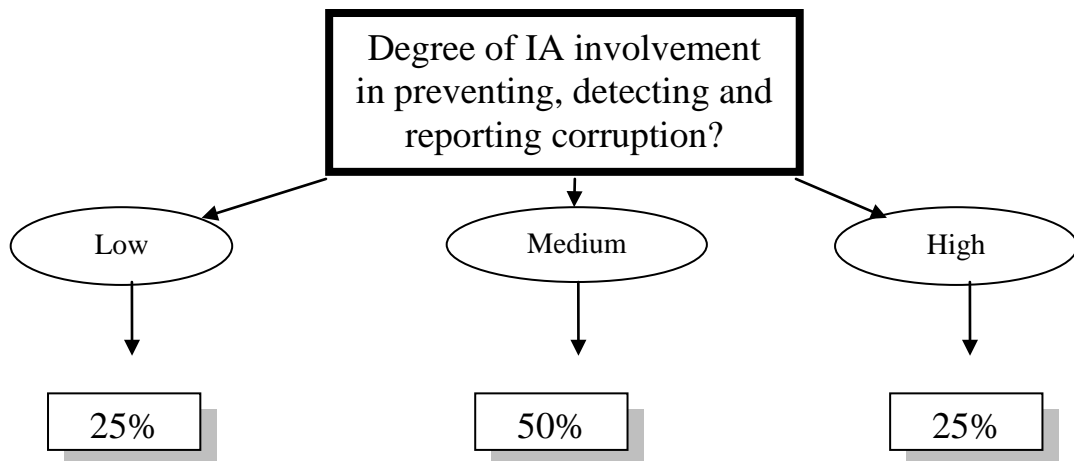
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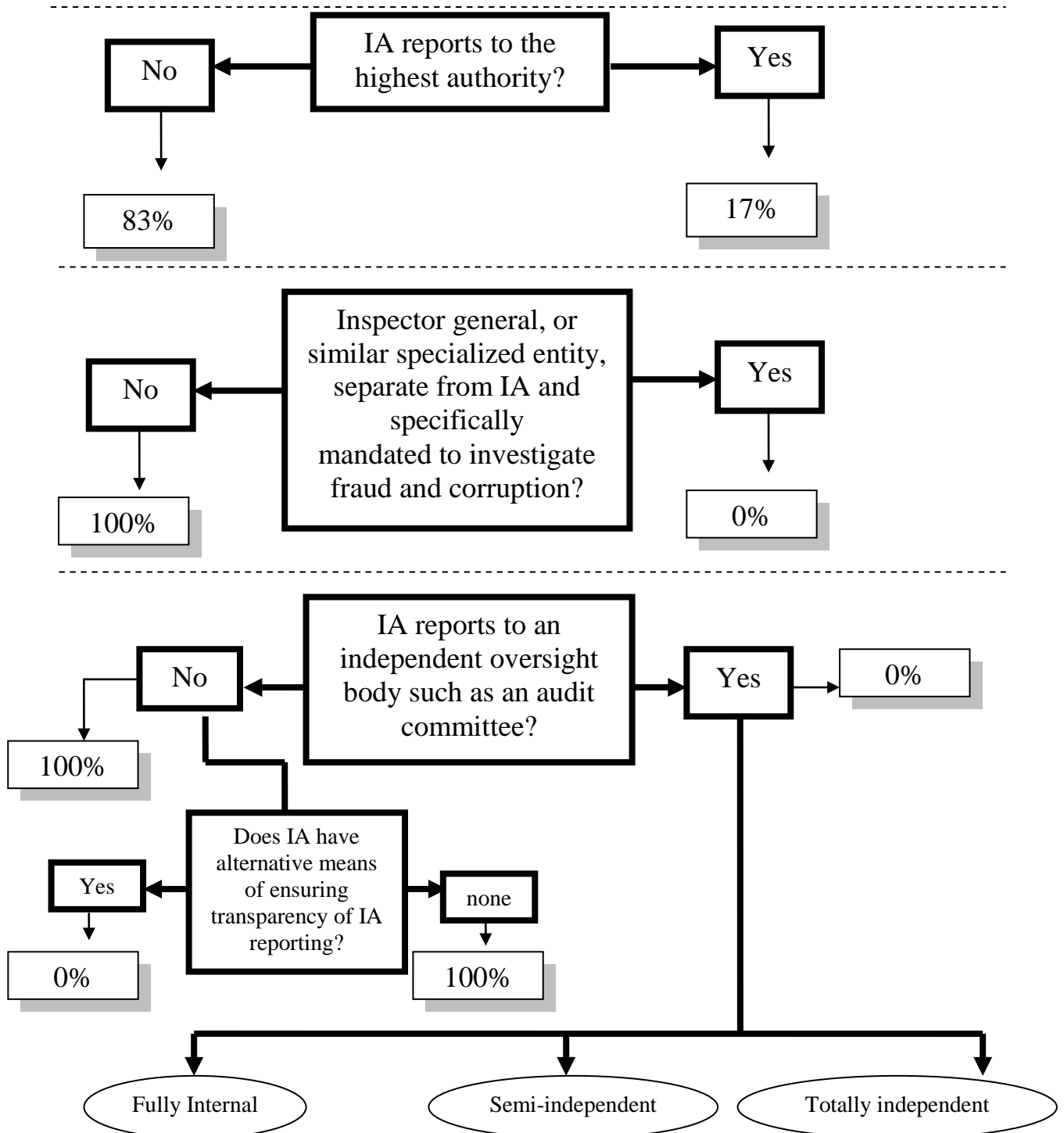


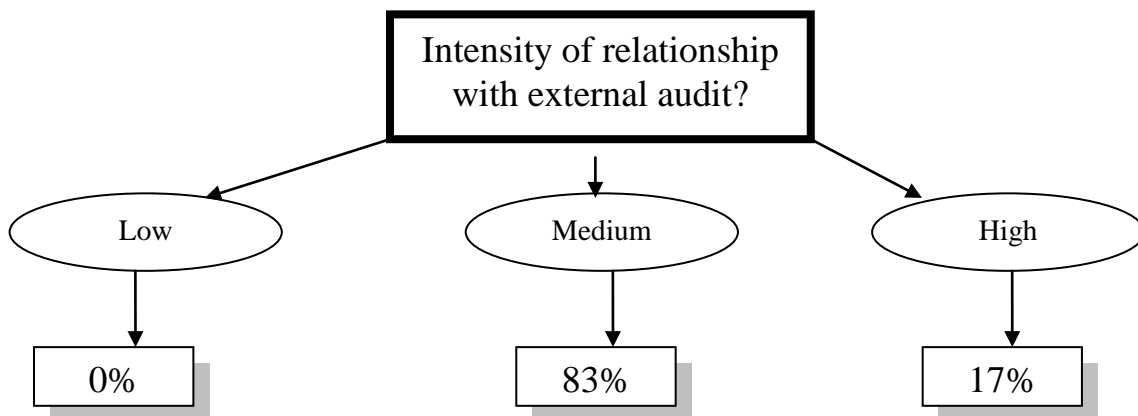
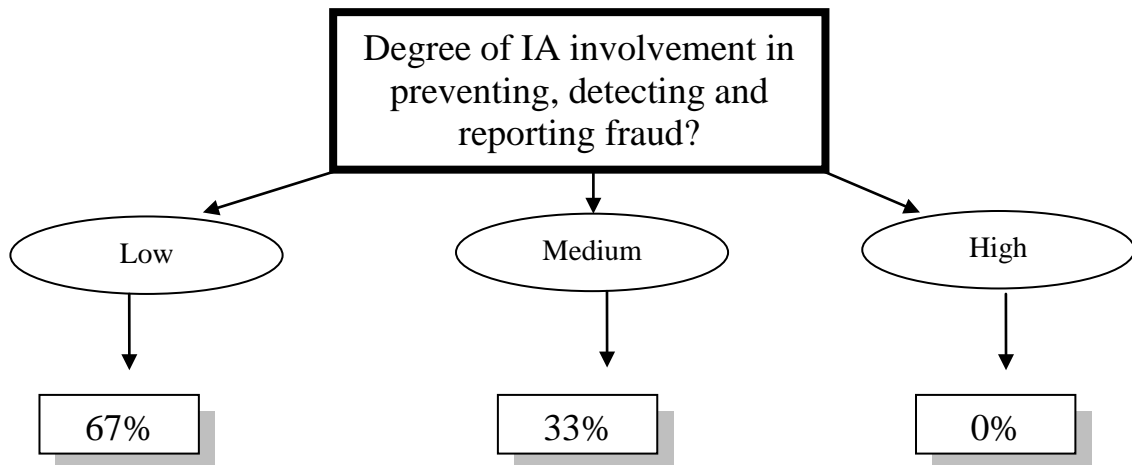
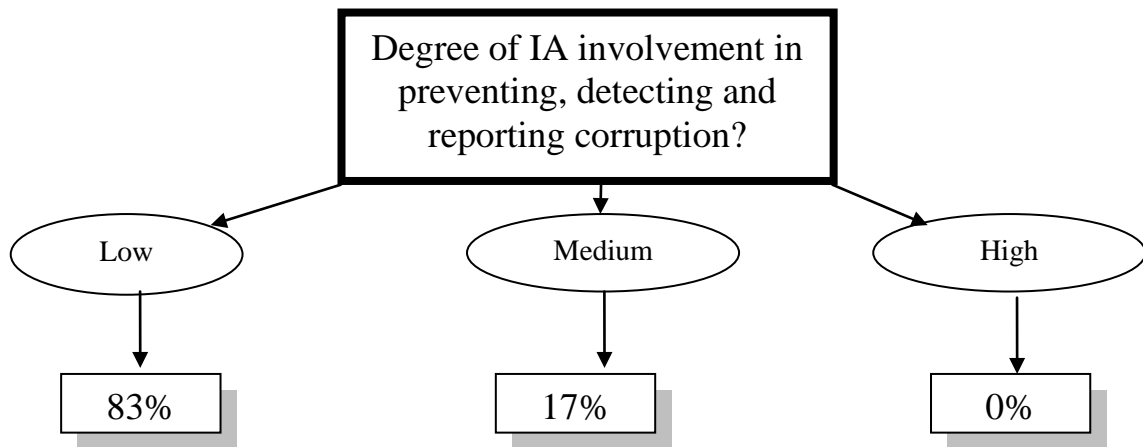
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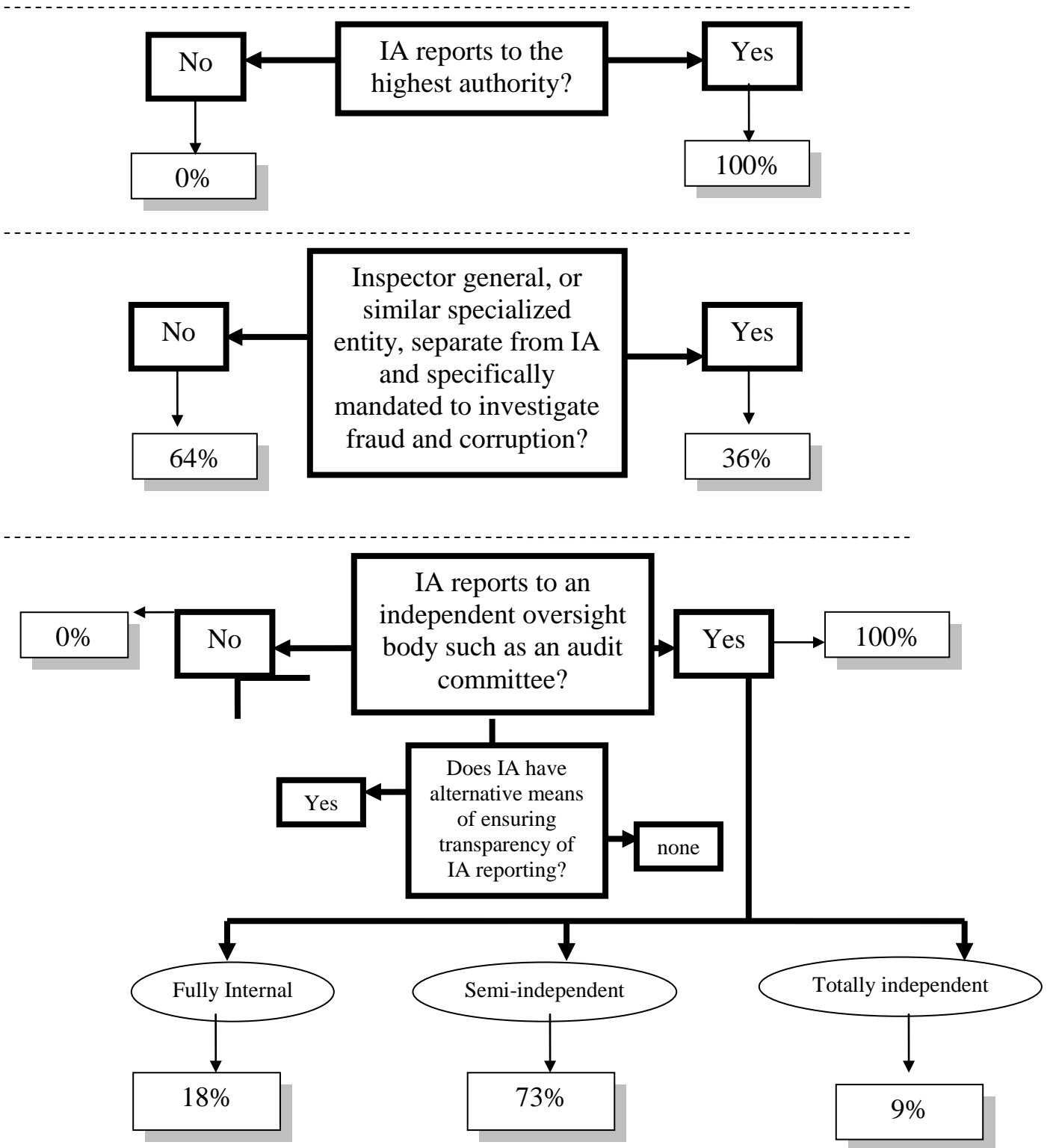


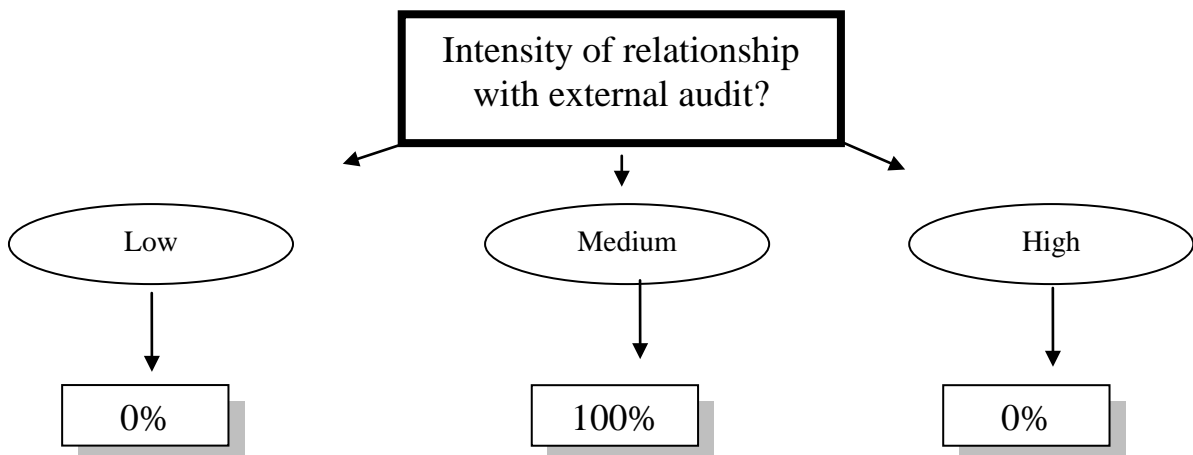
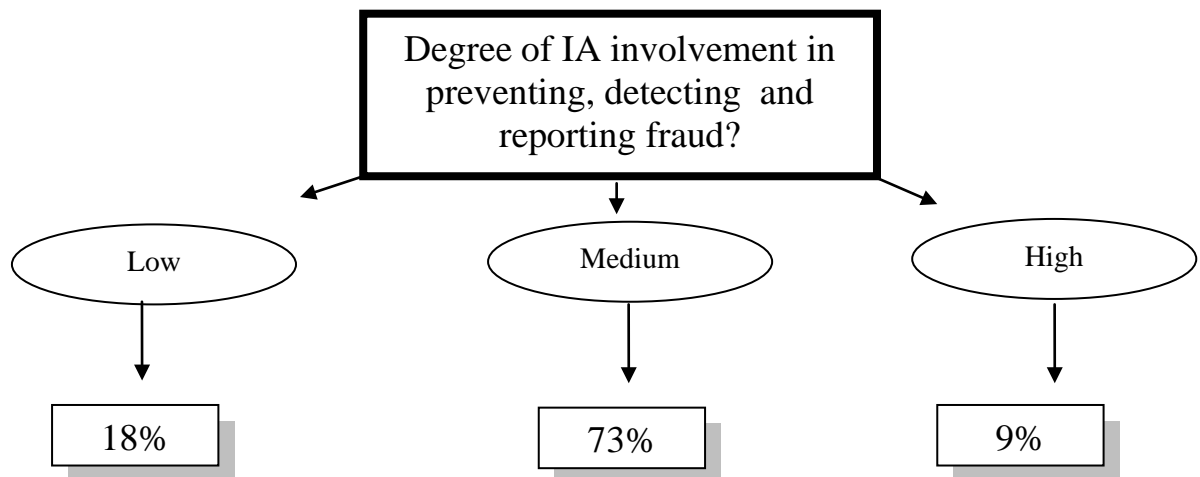
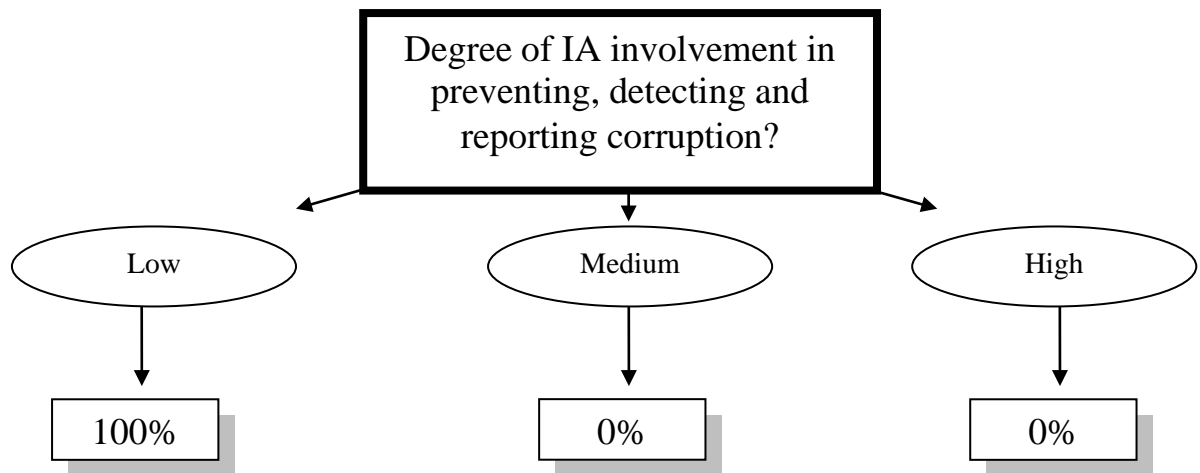
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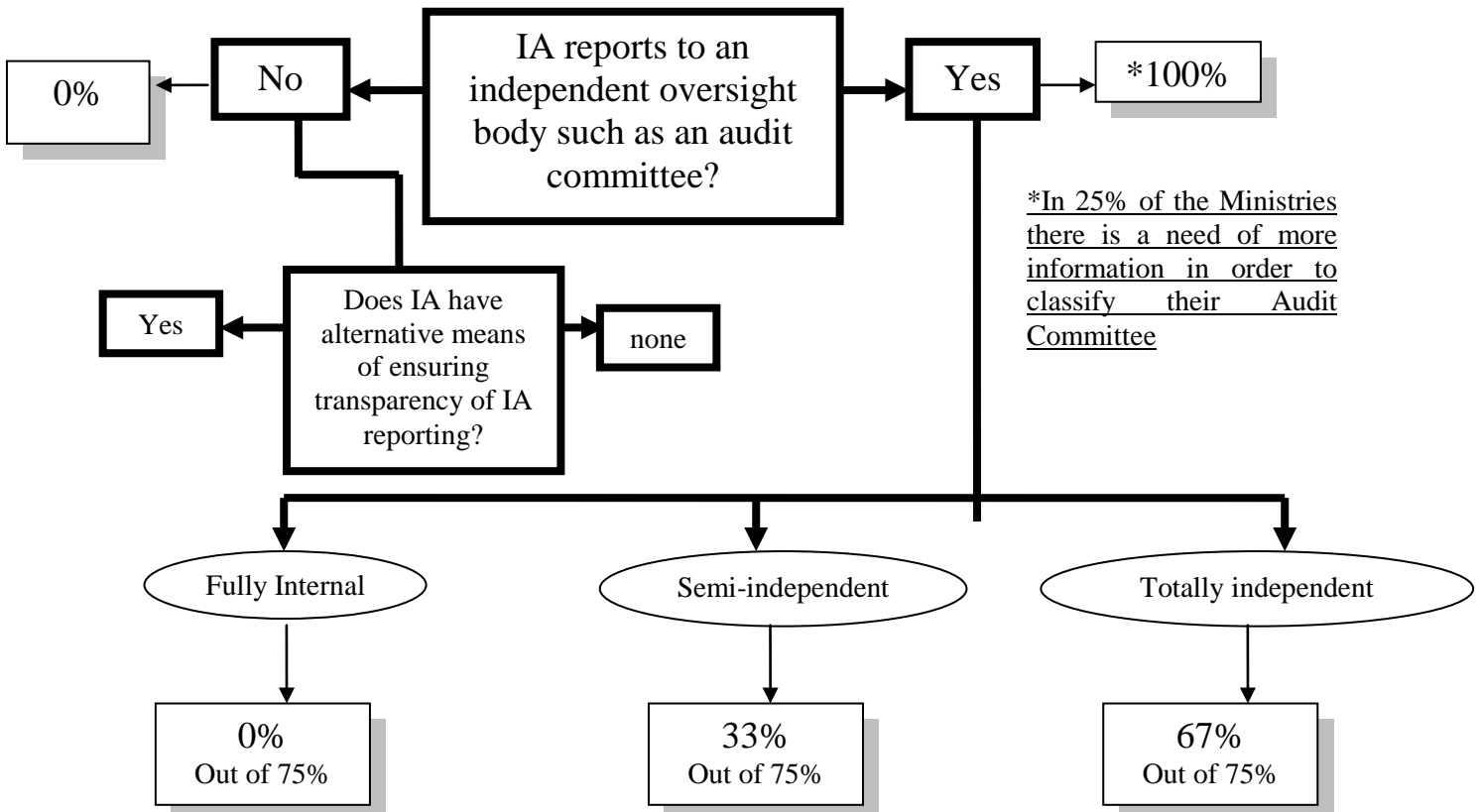
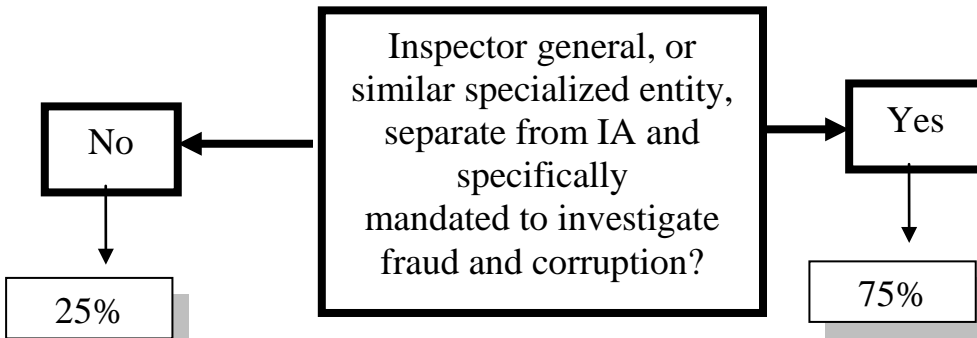
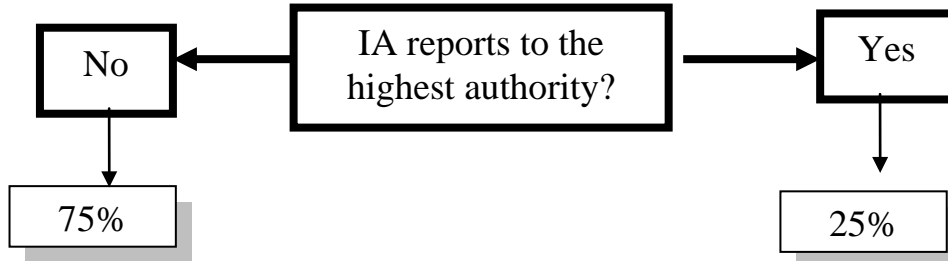


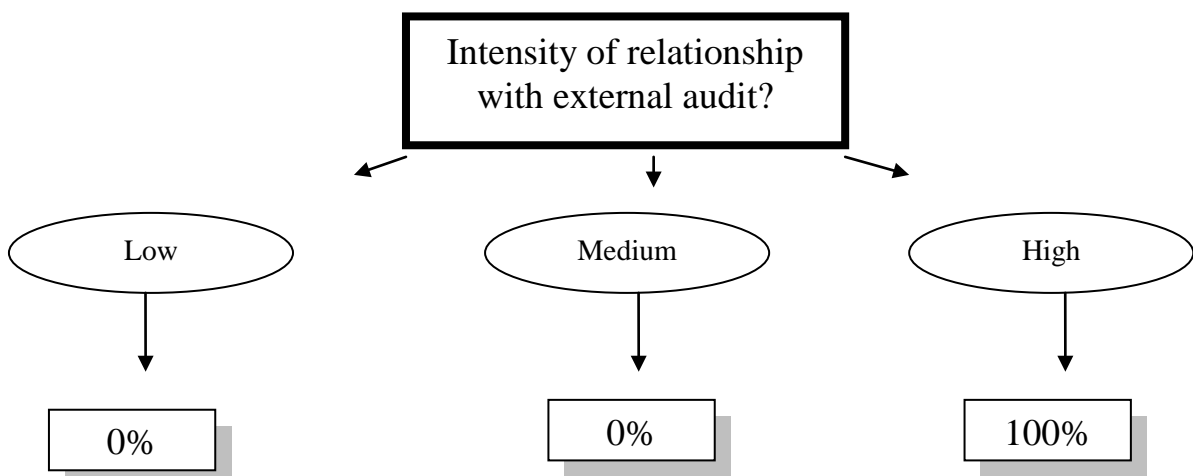
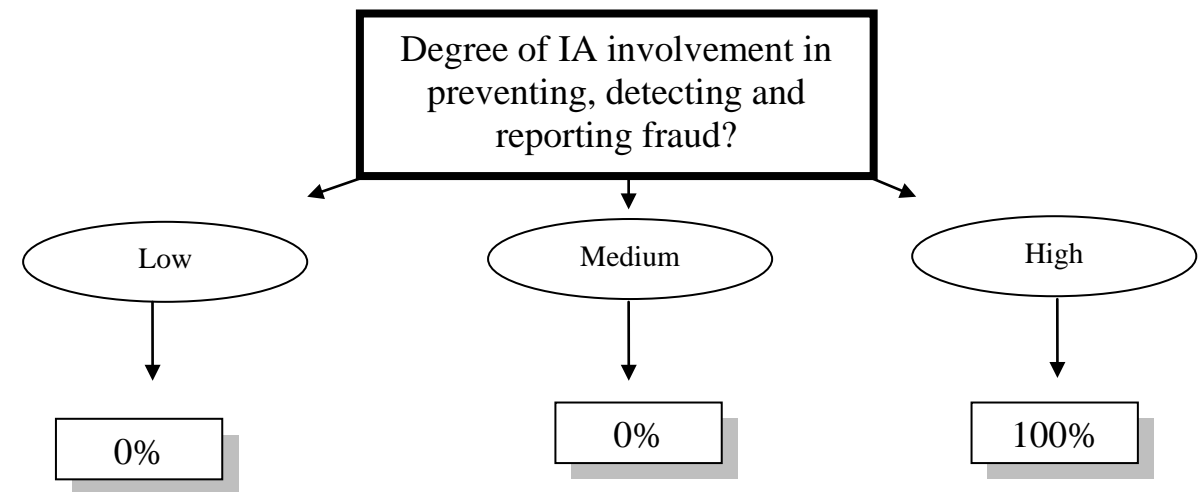
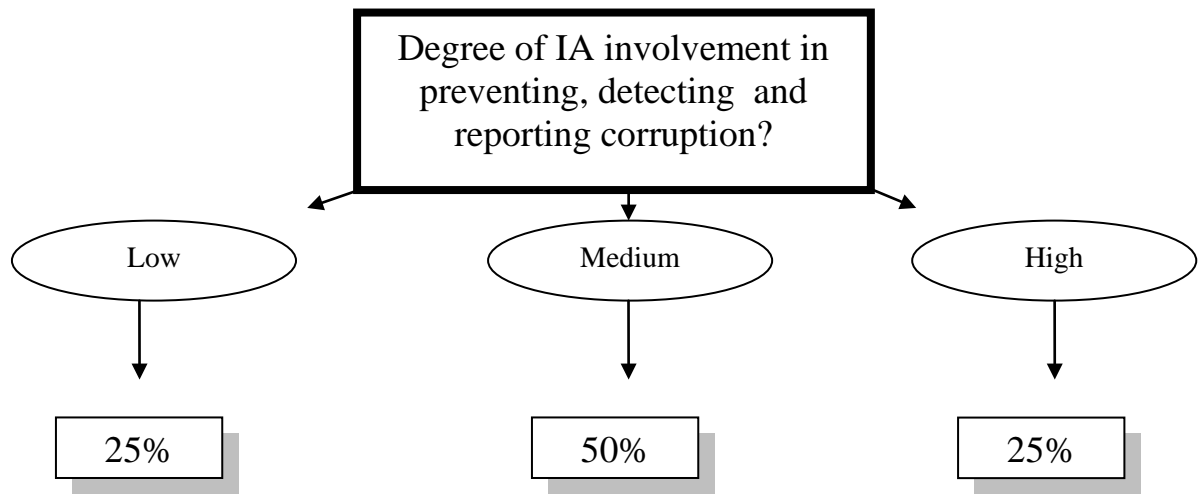
Netherlands



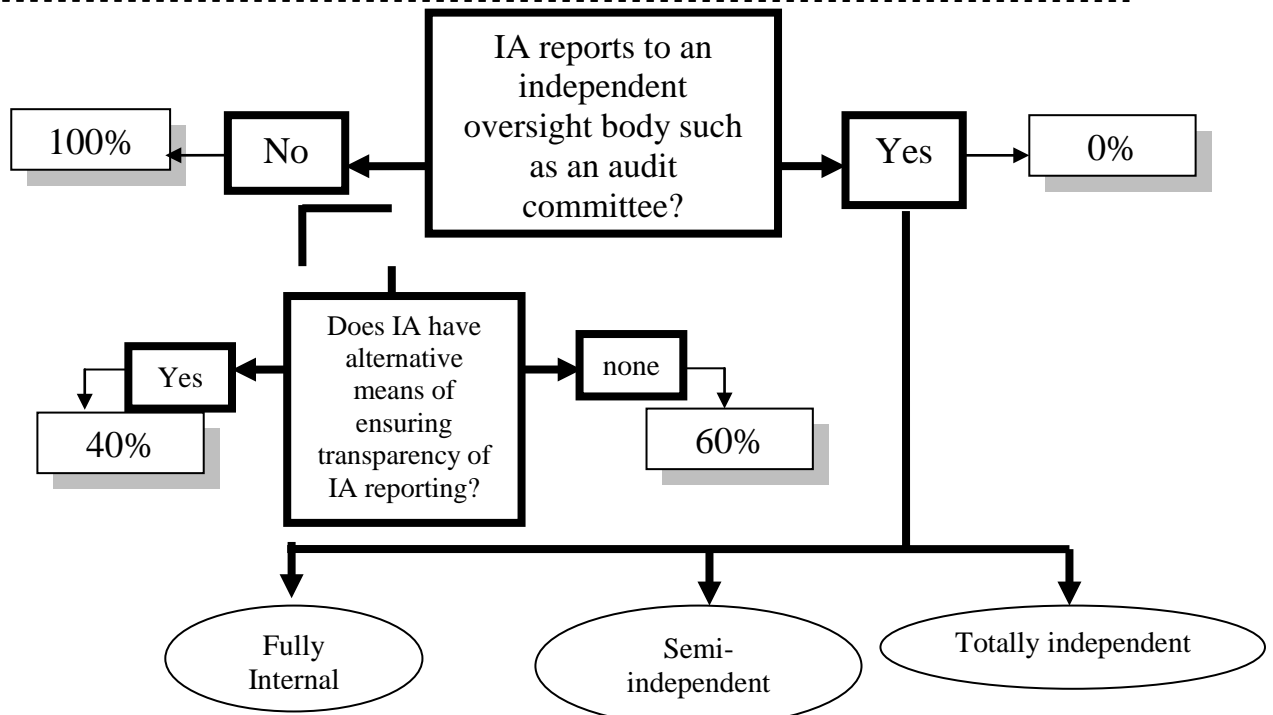
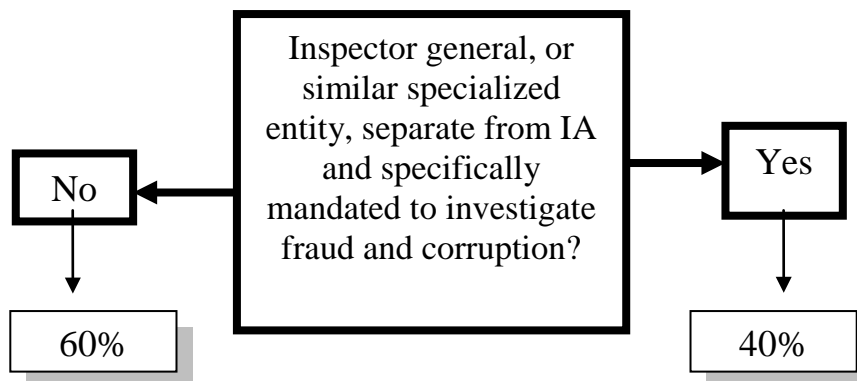
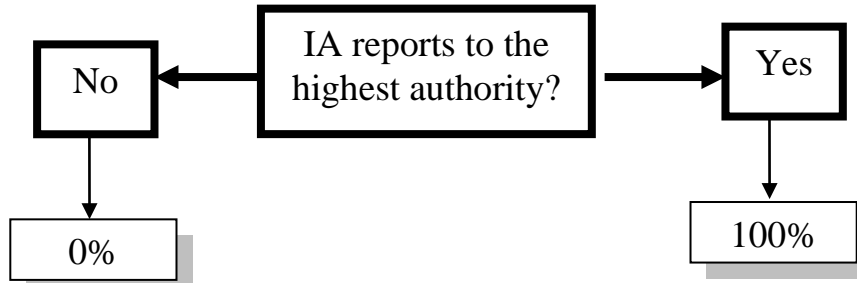


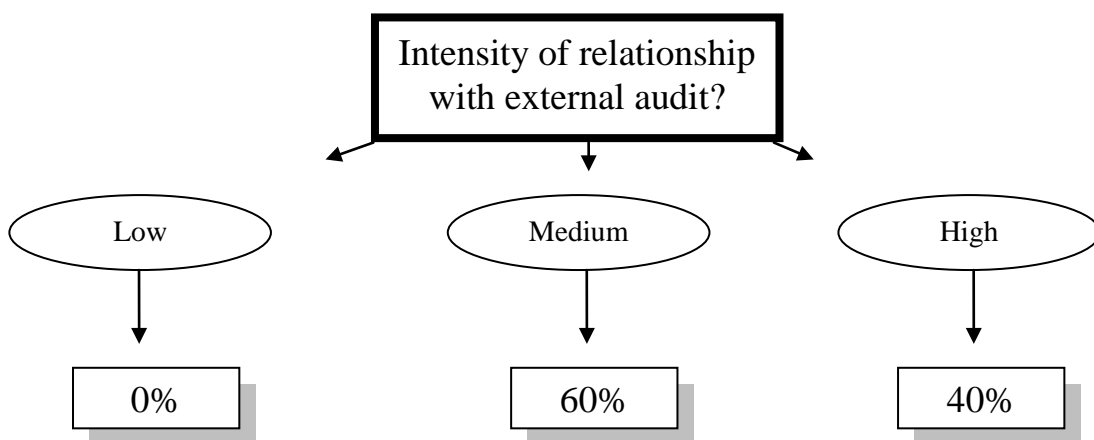
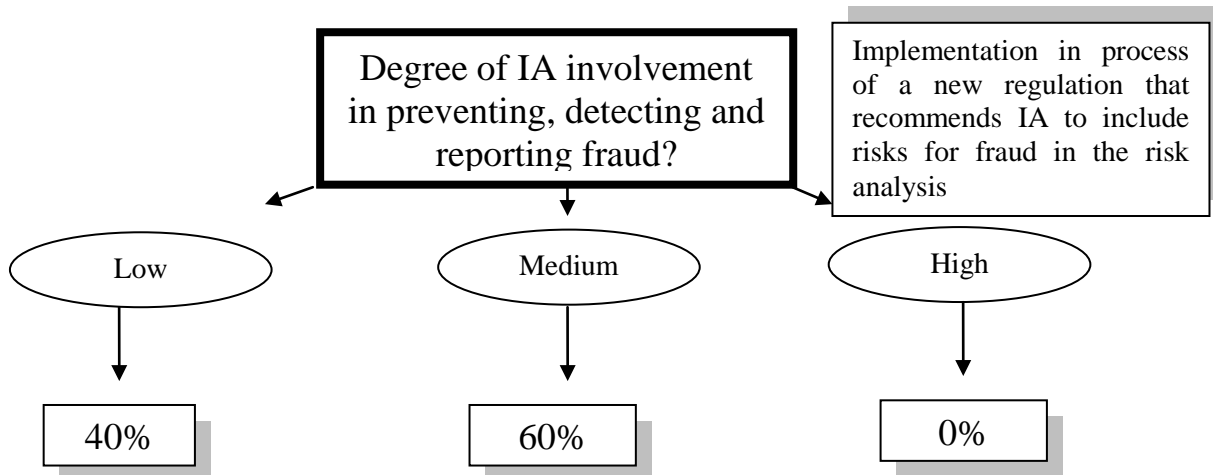
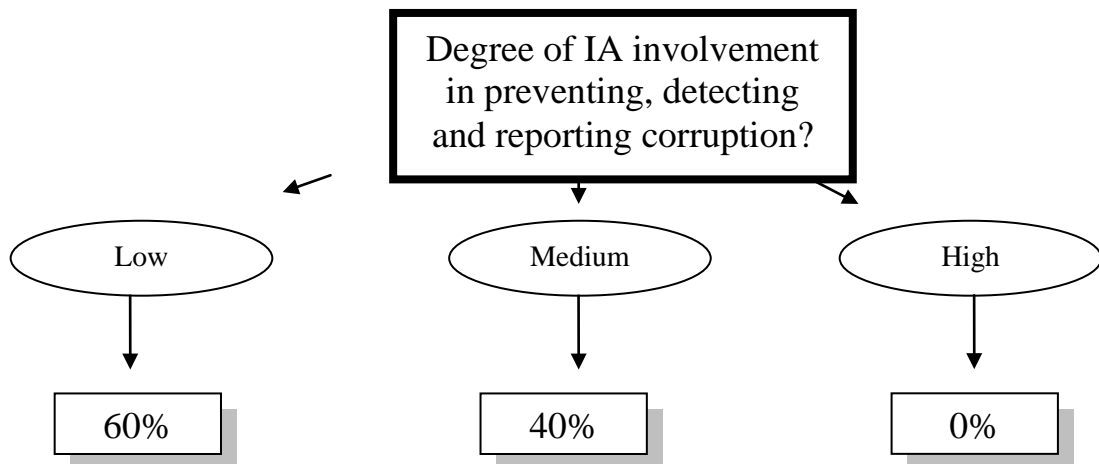
South Africa



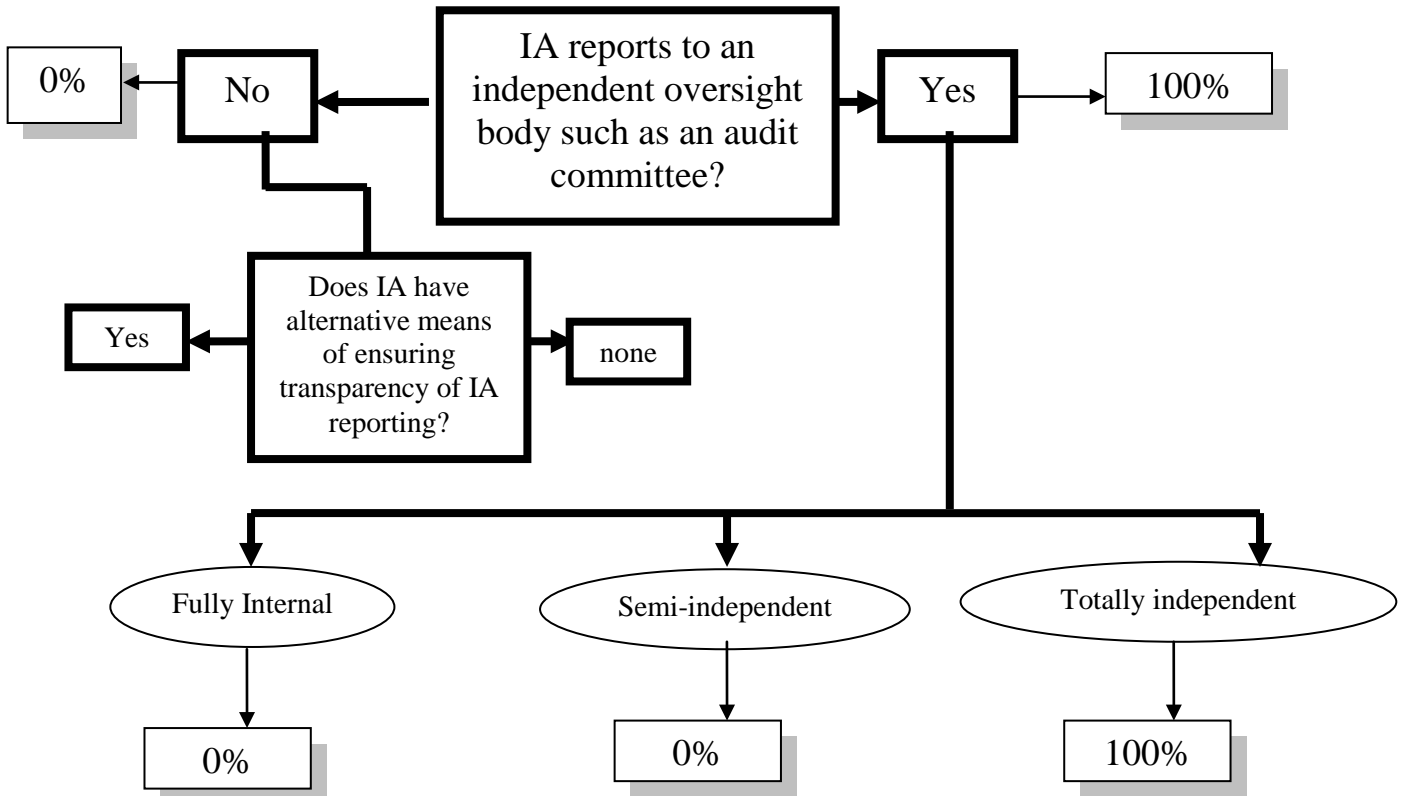
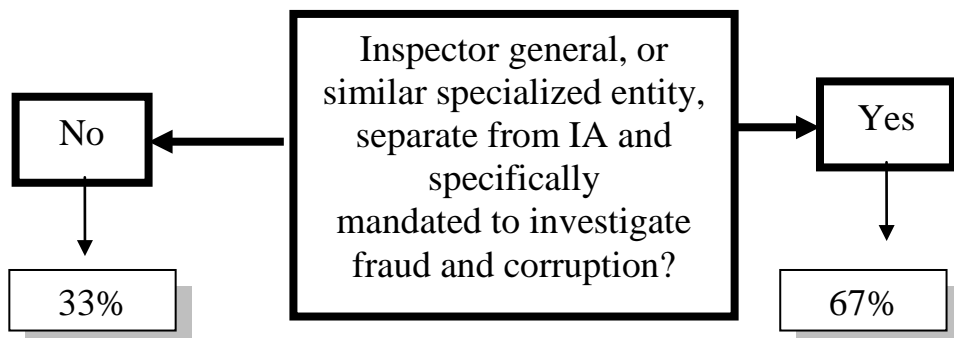
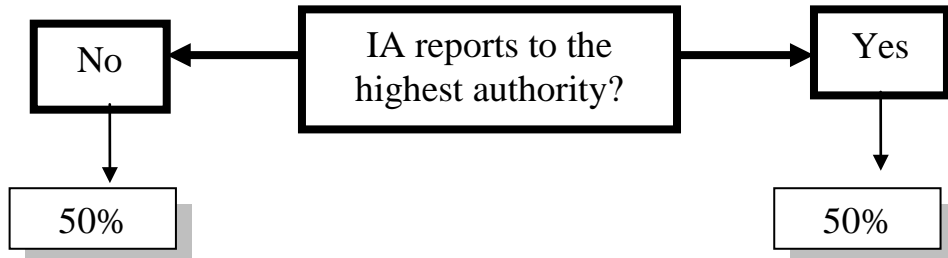


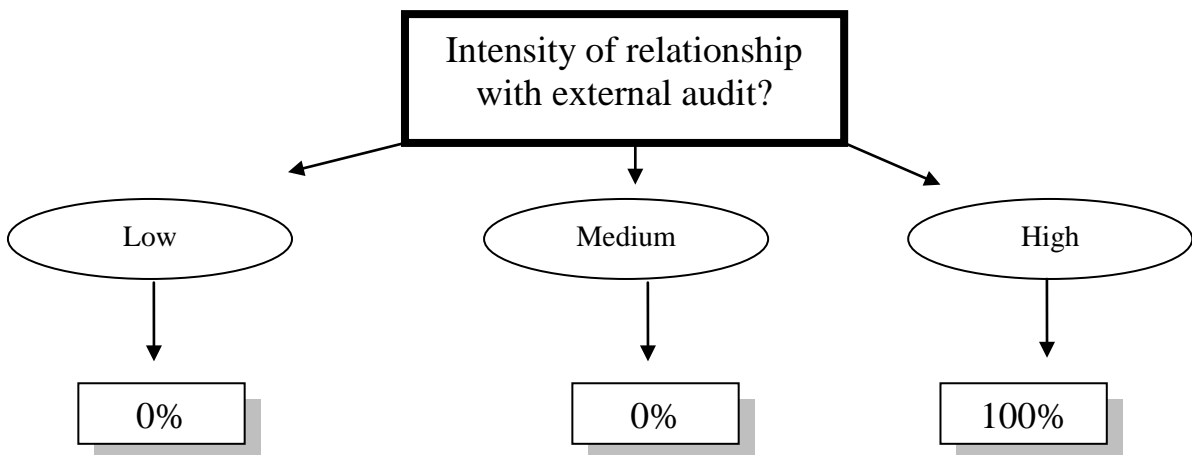
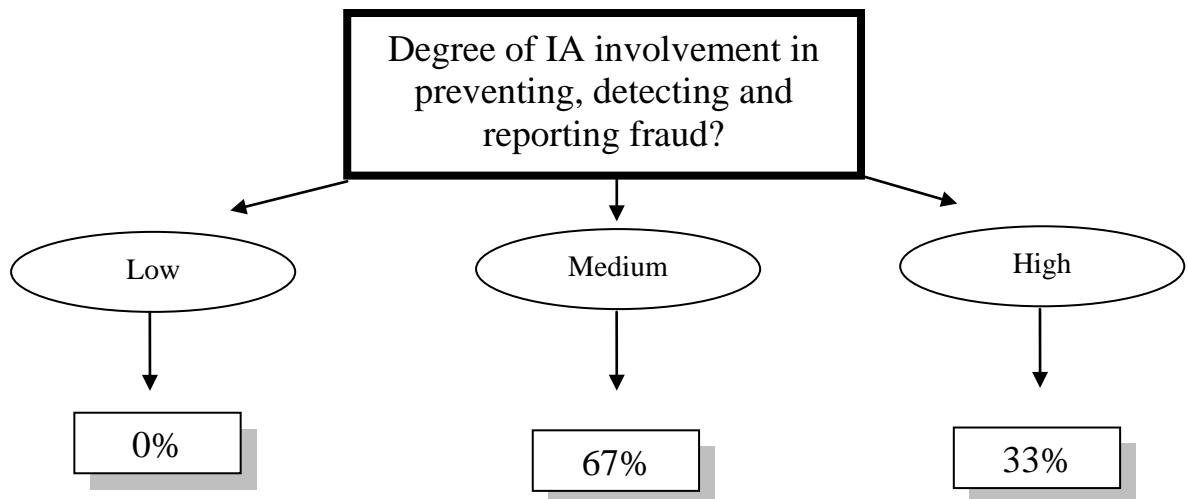
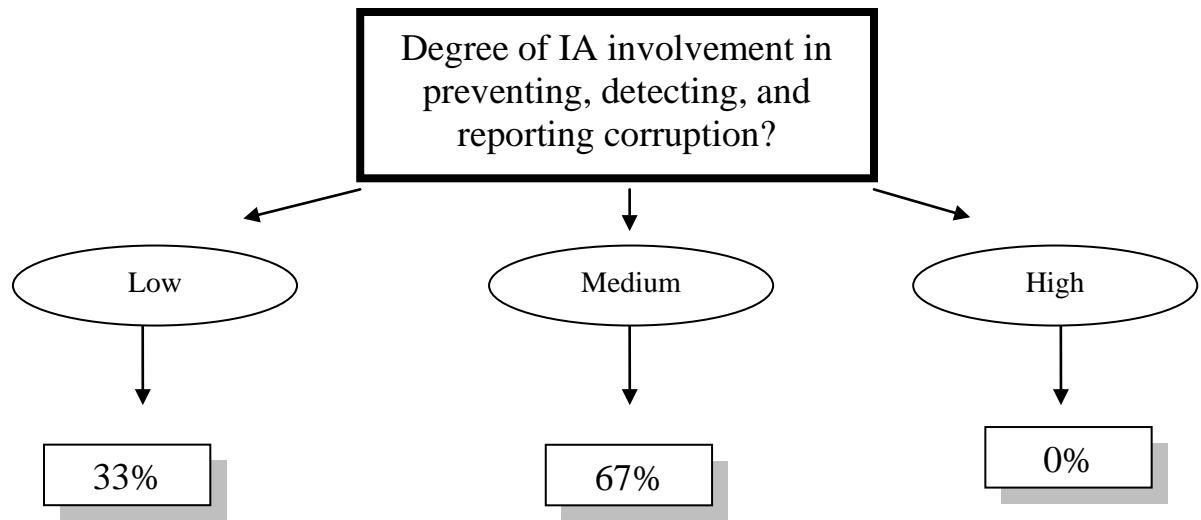
Sweden



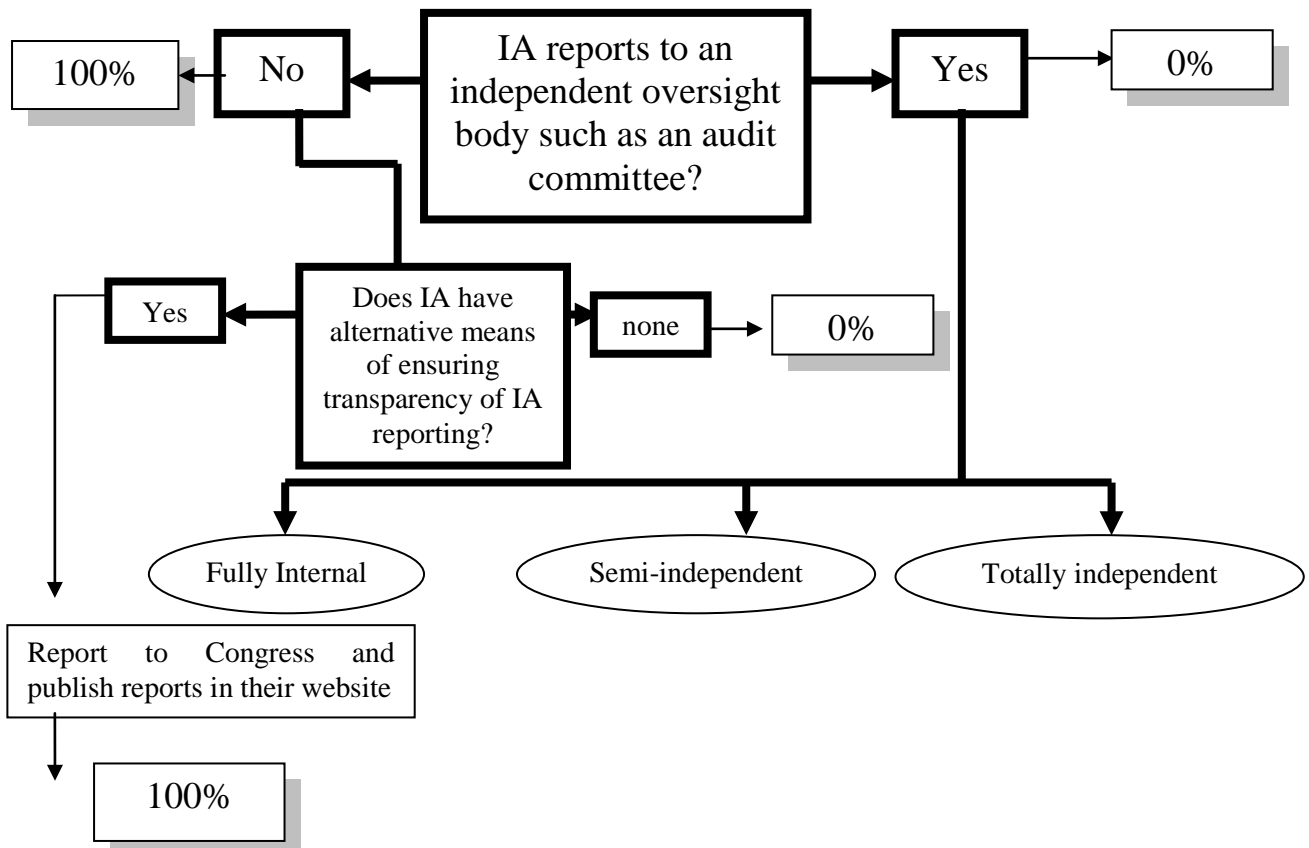
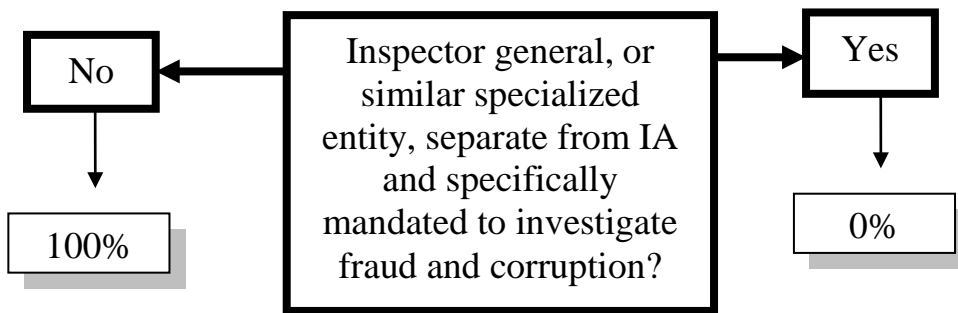
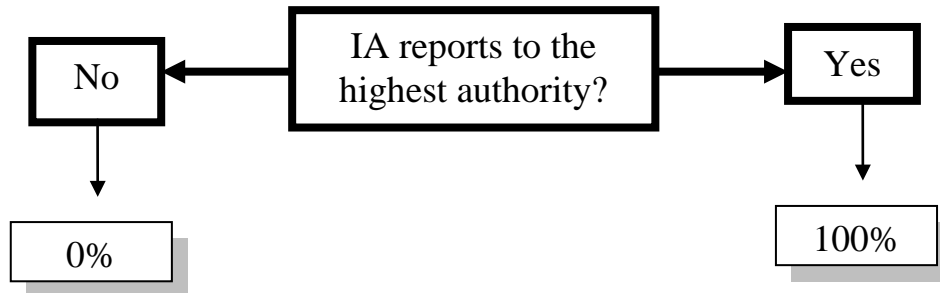


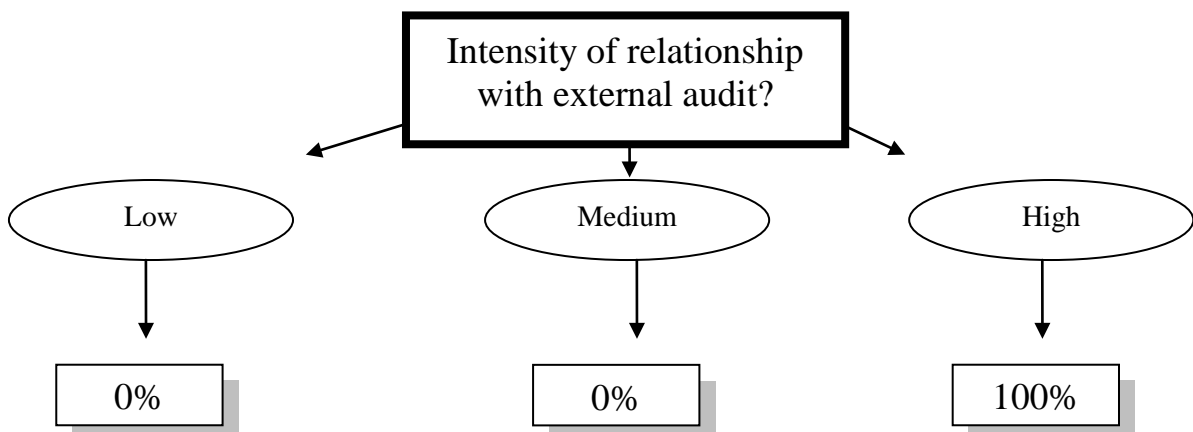
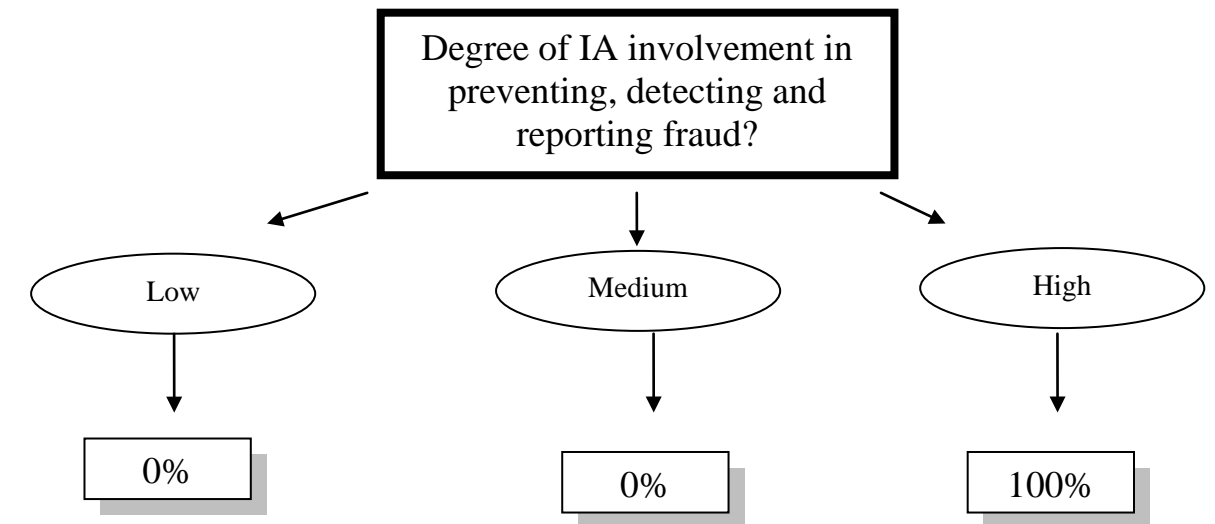
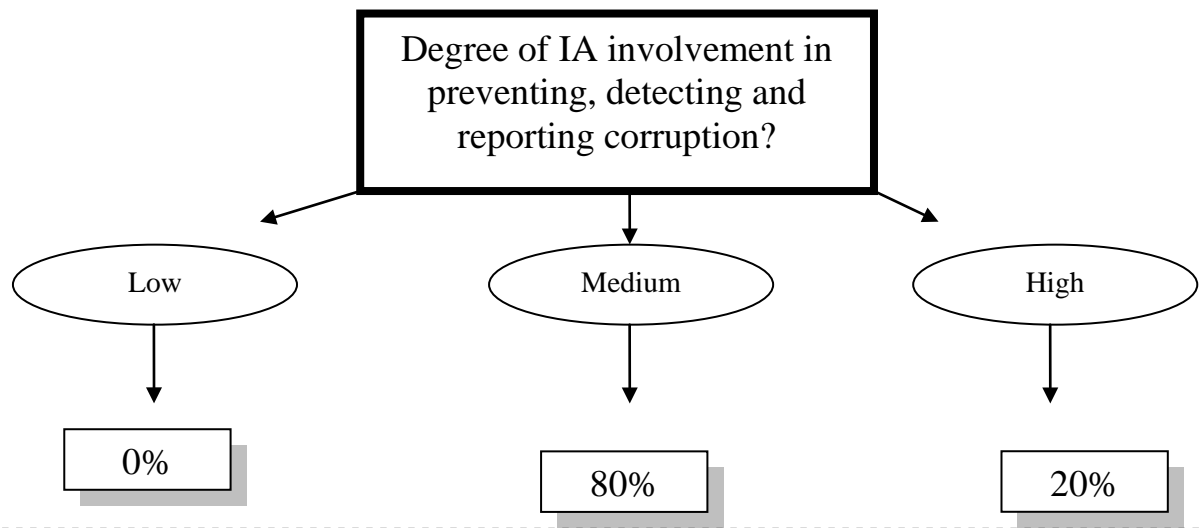
United Kingdom





United States





Annex D:

Survey results

For those questions marked “Not included”, responses comprise text as opposed to Yes or No, and have instead been reflected in the body of the report.

Part I: Internal Control Framework

1.1 Has your entity (i.e. ministry or equivalent central government structure) established an internal control framework or similar framework comprising control activities, control environment, risk assessment, and monitoring?

Yes	66	91%
No	4	5%
Not applicable	0	0%
Missing response	3	4%

n = 73. Missing responses relate to Japan (3).

1.2 As part of this framework, is management specifically assigned responsibility for: internal control? Risk management? Prevention of fraud and corruption?

	Internal control		Risk management		Prevention of fraud or corruption	
Yes	63	87%	61	84%	55	75%
No	4	5%	5	7%	11	15%
Not applicable	2	3%	2	3%	2	3%
Missing response	4	5%	5	7%	5	7%

n = 73. Missing responses relate to France (1) and Japan (3).

1.3 Are you subject to whole-of-government policies, or has your entity established any of the following internal controls, governing employee conduct: code of ethics? Conflict-of-interest policy? Gifts and gratuities policy? Other (please specify),

	Code of ethics (or code of conduct)		Conflict-of-interest policy		Gifts and gratuities policy		Other	
Yes	64	87%	60	82%	57	78%	7	10%
No	7	10%	8	11%	10	14%	0	0%
Not applicable	0	0%	0	0%	0	0%	6	8%
Missing response	2	3%	5	7%	6	8%	60	82%

n = 73. Missing responses for code of ethics (code of conduct) relate to Japan (2); for conflict-of-interest policy to Bulgaria (1), Canada (2) and Japan (2); and gifts and gratuities policy to Bulgaria (1), Canada (2), Japan (2) and Sweden (1).

1.4 Is there a framework for ethics training (or awareness initiatives) within your ministry?

Yes	56	77%
No	12	16%
Not applicable	0	0%
Missing response	5	7%

n = 73. Missing responses relate to Japan (2) and Brazil (3)

1.5 What measures are used to prevent and build resistance to corruption in financial transactions?

	Separation of receipt of goods/services and verification of goods/services		Separation of payment request and payment authorisation		Electronic payment review or approval procedures		Periodic rotation of employees in payment authorisation functions		Other	
Yes	59	81%	64	87%	62	85%	22	30%	23	32%
No	5	7%	2	3%	3	4%	36	49%	0	0%
Not applicable	0	0%	0	0%	0	0%	1	1%	6	8%
Missing response	9	12%	7	10%	8	11%	14	20%	44	60%

n = 73. Missing responses for separation of receipt of goods/services and verification of goods/services relate to Bulgaria (2), France (2), Japan (4) and United Kingdom (1); for separation of payment request and payment authorisation to France (1), Japan (4), United Kingdom (1) and United States (1); electronic payment review or approval procedures to Bulgaria (1), France (1), Japan (4), United Kingdom (1) and United States (1); and periodic rotation of employees in payment authorisation functions relate to Australia (1), Bulgaria (2), France (1), Japan (4) and Brazil (4).

1.6 Are there measures in personnel management such that: transparency or, clear rule for, selection is ensured? Transparency or, and clear rules for, recruitment is ensured? There are clear job descriptions and reporting relationships? *Not included.*

1.7 Is there any plan to strengthen the internal control framework?

Yes	32	44%
No	36	50%
Not applicable	1	1%
Missing response	4	5%

n = 73. Missing responses relate to Japan (3) and Bulgaria (1)

1.8 If yes, please describe this plan briefly. *Not included.*

Part II: Internal Audit existence, mandate, reporting and professionalism

Internal Audit

2.1.1. Does your entity possess an internal audit activity?

Yes	73	100%
<i>It serves only the entity</i>	65	89%
<i>It exist centrally with a mandate covering several government ministries</i>	7	10%
<i>Missing response</i>	1	1%
No	0	0%

n = 73.

2.1.2 If so, please provide its title. *Not included*

2.1.3 Does this IA activity serve only your entity, free to establish its own workplan?

Yes	65	89%
No	7	10%
Not applicable	0	0%
Missing response	1	1%

2.1.4 If no, does it exist centrally with a mandate covering several government ministries?

Yes	7	10%
No	0	0%
Not applicable	65	89%
Missing response	1	1%

2.1.5 If your entity does not possess an IA activity, is there a plan for its creation? *Not included.*

Internal audit functional and administrative reporting line

2.2.1 Is internal audit independent (functionally and administratively) of all activities with executive management responsibilities internal audit functional and administrative reporting lines?

Yes	64	87%
No	8	11%
Not applicable	0	0%
Missing response	1	1%

n = 73. Missing response for Japan (1).

2.2.2 Does the head of internal audit report to the highest authority in the entity?

Yes	55	76%
No	17	23%
Not applicable	0	0%
Missing response	1	1%

n = 73. Missing response for Japan (1),

2.2.3 To whom does internal audit report? *Not included.*

2.2.4 Does internal audit also report functionally to an independent oversight body such as an audit committee?

2.2.5 Where such an oversight body does not exist, does your internal audit function have alternative means of ensuring some degree of transparency of internal audit reporting?

Yes	33	46%
No	39	53%
<i>Where such an oversight body does not exist, does your IA function have alternative means of ensuring some degree of transparency of IA reporting</i>	21	29%
Not applicable	0	0%
Missing response	1	1%

n=73. Missing response for Japan (1)

2.2.6 If so, what are those means? *Not included.*

2.2.7 Does external audit (i.e. the Supreme Audit Institution) have unrestricted access to staff and reports of IA)?

Yes	63	87%
No	4	5%
Not applicable	5	7%
Missing response	1	1%

n=73. Missing response for Japan (1).

2.2.8 Is there a process by which internal audit reports are systematically communicated to external audit?

Yes	53	73%
No	17	23%
Not applicable	0	0%
Missing response	3	4%

n=73. Missing response for Bulgaria (1) and Japan (2).

2.2.9 If possible, please provide an organisation chart (in English or in French) showing the position and the functional and administrative reporting lines of IA in your entity. *Not included*

2.2.10 Is there a plan to strengthen internal audit functional or administrative report lines?

Yes	9	12%
No	57	78%
Not applicable	0	0%
Missing response	7	10%

n=73. Missing response for Bulgaria (1), Canada and Japan (1).

Internal audit mandate

2.3.1 Does internal audit have a charter, mandate, mission statement approved by those to whom it reports hierarchically and functionally?

2.3.2. If yes, does the mandate of IA include reference to professional standards to which the function is required to adhere?

2.3.3. If yes, are these standards consistent with those comprising the IPPF of The IIA?

Yes	73	100%
<i>The mandate of IA include reference to professional standards to which the function is required to adhere</i>	65	89%
<i>The standards consistent with those comprising the IPPF of The IIA?</i>	60	82%
Non	6	8%
Not applicable	0	0%
Missing response	2	3%

2.3.4 Is there a plan to strengthen the internal audit Charter or Mandate, for example by introducing reference to the professional standards to which the function adheres?

Yes	12	16%
No	56	77%
Not applicable	2	3%
Missing response	3	4%

n=73. Missing responses for Australia (1), Bulgaria (1) and Japan (1).

2.3.5 If yes, please provide details of planned reinforcements? *Not included.*

2.3.6 Does the internal audit mandate specifically include reference to?

	Fraud		Corruption	
Yes	37	51%	27	37%
No	32	44%	42	58%
Not applicable	0	0%	0	0%
Missing response	4	5%	4	5%

n = 73. Missing responses relate to Bulgaria (1) and Japan (3).

2.3.7 Is there an inspectorate general or similar specialised entity separate from internal audit and specifically mandated to investigate fraud and corruption?

2.3.8. If yes, does this inspectorate general exist within the entity or separately outside the entity?

Yes	40	55%
<i>The IG exist within the entity</i>	35	48%
<i>The IG exist outside the entity</i>	5	7%
No	30	41%
Not applicable	2	3%
Missing response	1	1%

n = 73. Missing response relates to Japan (1).

2.3.8 Does the inspectorate general IG mandate describe or make reference to:

	Fraud		Corruption	
Yes	36	50%	31	42%
No	0	0%	5	8%
Not applicable	31	42%	31	42%
Missing response	6	8%	6	8%

n = 73. Missing responses for fraud relate to Bulgaria (2), Japan (1) and Netherlands (3); for corruption relate to Bulgaria (2), Japan (1) and Netherlands (2) and the United Kingdom (1).

2.3.9 In the case where internal audit and an inspectorate general (or similar specialized entity) co-exist, do you consider this as:

- Lowering the efficiency of mechanisms supporting integrity?
- Increasing the efficiency of mechanisms supporting integrity?

Increase	29	40%
Decrease	1	1%
Not applicable	27	37%
Missing response	16	22%

N = 73 Missing responses relate to the Netherlands (1), Brazil (1) the USA (2), the UK (2), Sweden (2) Japan (3), Bulgaria (5)

2.3.10 If considered as lowering, is there a plan to modify this co-existence? *Not included.*

Internal audit reporting mechanism

2.4.1 Is there a process by which the official(s) to whom internal audit reports is / are systematically informed of the findings and recommendations resulting from each internal audit assignment?

Yes	70	96%
No	1	1%
Not applicable	0	0%
Missing response	2	3%

n=73. Missing responses relate to Bulgaria (1) and Japan (1).

2.4.2 Is there a process by which action plans are established for the implementation of recommendations by those who have been audited?

2.4.3 If so, is there a process requiring regular monitoring of the implementation of such action plans after a defined period?

Yes	70	96%
There is a process requiring regular monitoring of the implementation of such action plans after a defined period	65	89%
No	2	3%
Not applicable	0	0%
Missing response	1	1%

n=73. Missing response relate to Japan (1).

2.4.4 Is there a process by which internal audit provides a report covering its activities over a period, at least annually?

2.4.5 If so, does this report cover: (i) key findings; (ii) significant risk exposures and control issues, including fraud or corruption risks and governance issues; (iii) status of implementation of recommendations; and (iv) planned future work?

Yes, including	71	97%
Key findings	65	89%
Significant risk exposures and control issues, including fraud or corruption risks and governance issues	59	81%
Status of implementation of recommendations	61	84%
Planned future work	36	50%
No	2	3%
Not applicable	0	0%
Missing response	0	0%

n=73.

2.4.6 There is a plan to improve:

	The process by which those to whom internal audit reports are informed of the findings and recommendations resulting from each internal audit assignment		The process by which internal audit provides a report covering its activities over a period		The process by which action plans are established for the implementation of recommendations by those who have been audited	
Yes	13	18%	15	21%	14	19%
No	57	78%	55	75%	56	77%
Not applicable	1	1%	1	1%	1	1%
Missing response	2	3%	2	3%	2	3%

n=73. Missing responses for all options relate to Bulgaria (1) and Japan (1).

2.4.7 If yes, please provide details of planned improvements to the reporting process.

Not included.

Internal audit staff and professionalism

2.5.1 Are internal audit staff required or encouraged to possess relevant professional qualifications (e.g., Chief Internal Auditor, etc)?

2.5.2 If yes, are those qualifications specialized in: (i) audit (ii) accounting/finance; (iii) Information Technology; (iv) investigations; (v) other?

Yes. In	62	85%
<i>Audit</i>	62	85%
<i>Accounting and finance</i>	50	68%
<i>Information and communication technology</i>	49	67%
<i>Investigations</i>	34	47%
<i>Other</i>	21	29%
No	11	15%
Missing response	0	0%

n=73.

2.5.3 Is there a performance appraisal system for internal audit staff?

2.5.4 If yes, does this system include objectives for the maintenance and enhancement of professional qualifications and experience?

Yes	64	87%
<i>It includes objectives for the maintenance and enhancement of professional qualifications and experience</i>	52	71%
No	8	11%
Not applicable	0	0%
Missing response	1	1%

n=73. Missing response relates to Japan (1)

2.5.5 Does internal audit have a quality assurance (as provided for in the IPPF), or similar mechanism providing for its independent external assessment?

Yes	59	81%
No	12	16%
Not applicable	0	0%
Missing response	2	3%

n=73. Missing responses relate to Japan (2).

2.5.6 Is there a plan to improve internal audit staff qualifications and professionalism?

Yes	53	73%
No	14	19%
Not applicable	1	1%
Missing response	5	7%

n=73. Missing responses relate to Australia (1), Bulgaria (1), Japan (2) and the United Kingdom (1).

2.5.7 Is there a policy regarding conflicts of interest of internal audit staff?

Yes	57	78%
No	12	17%
Not applicable	0	0%
Missing response	4	5%

n=73. Missing responses relate to Australia (1), Bulgaria (1) and Japan (2).

Part III: Prevention, Detection and Reporting of Fraud or Corruption

3.1 Is there a mechanism by which staff members (or public servants) may report suspected fraud or corruption?

Yes	64	88%
No	6	8%
Missing response	3	4%

n=73. Missing responses relate to Bulgaria (1) and Japan (2).

3.2 Is there a mechanism by which third parties (e.g., customers and suppliers) may report suspected fraud or corruption?

Yes	55	75%
No	13	18%
No response	5	7%

n=73. Missing responses relate to Bulgaria (1), Japan (3) and the United Kingdom (1).

3.3 Does your entity possess a framework for facilitating and protecting whistle blowing or “one who alleges misconduct”?

3.4 If yes: is internal audit responsible for maintaining the whistle blowing framework? is it anonymous? Is protection provided to those who report suspected fraud or corruption?

Yes	50	68%
No	20	28%
Missing response	3	4%
<i>It is the responsibility of the internal audit</i>	7	10%
<i>It is not the responsibility of the internal audit</i>	39	53%
<i>Missing response regarding responsibility of internal audit</i>	6	8%
<i>It is anonymous</i>	30	41%
<i>It is not anonymous</i>	17	23%
<i>Missing response regarding whether anonymous or not</i>	6	8%
<i>Protection is provided</i>	44	60%
<i>Protection is not provided</i>	2	3%
<i>Missing response regarding whether protection is provided or not</i>	6	8%

n=73. Missing responses for anonymity of reporting relates to Japan (3); for protection to Bulgaria (3), Japan (3) and the United Kingdom (1); for responsibility of internal audit to Bulgaria (1), Canada (1) and Japan (5).

3.5 Number of (i) fraud and (ii) corruption cases reported over the past 24 months. *Not included.*

3.6 Of this number:

- How many were discovered by chance?
- How many were discovered as a result of their being reported by a member of staff?

- How many were discovered as a result of a specific assignment as part of the internal audit work plan?
- How many were discovered due to the established internal control system of approvals and authorisations of transactions?

Not included.

3.7 In the case of fraud are any of the following specific preventative measures in place:

	Hot lines		Fraud risk analysis		Specific reference to Fraud in the Code of Conduct/Code of Ethics		Anti-fraud training		Management assertion		Certification of financial statements	
Yes	45	62%	37	51%	33	44%	38	52%	33	46%	43	59%
No	20	27%	27	37%	29	40%	26	36%	31	42%	21	29%
Not applicable	0	0%	0	0%	0	0%	0	0%	0	0%	1	1%
Missing response	8	11%	9	12%	11	15%	9	12%	9	12%	8	11%

n=73. Missing responses for hot lines relate to Bulgaria (2), France (1), Japan (4) and Sweden (1); for fraud risk analysis to Bulgaria (2), France (1), Japan (4), Sweden (1) and the United States (1); for specific reference to fraud in the code of conduct/code of ethics to Bulgaria (3), France (2), Japan (4), Sweden (1) and the United States (1); for anti-fraud training to Bulgaria (2), France (1), Japan (4), Sweden (1) and the United States (1); for management assertion to Bulgaria (2), Canada (1), France (1), Japan (4) and Sweden (1); for certification of financial statements to Bulgaria (2), France (1), Japan (4) and Sweden (1).

3.8 If fraud is suspected or revealed, would internal audit be involved in its investigation?

Yes, all the time	34	47%
Yes, some times	16	22%
No	18	25%
Not applicable	1	1%
Missing response	4	5%

n=73. Missing responses relate to Australia (1), Bulgaria (2) and Japan (2).

3.9 Have internal audit staff received specific fraud training?

Yes	38	52%
No	31	42%
Not applicable	0	0%
Missing response	4	5%

n=73. Missing responses relate to Australia (1), Bulgaria (1) and Japan (2).

3.10 Does internal audit perform work specifically to detect fraud?

Yes	32	44%
No	36	49%
Not applicable	0	0%
Missing response	5	7%

n=73. Missing responses relate to Bulgaria (1) and Japan (4).

3.12 Do you consider anti-fraud procedures in your entity to be sufficient?

Yes	45	62%
No	19	26%
Not applicable	0	0%
Missing response	9	12%

n=73. Missing responses relate to Australia (1), Bulgaria (1), France (2), Brazil (2) and Japan (3)

3.13 Does your entity have plans to improve anti-fraud procedures?

Yes	20	27%
No	42	58%
Not applicable	0	0%
Missing response	11	15%

n=73. Missing responses relate to Australia (1), the United Kingdom (1), France (1), Brazil (2), Bulgaria (3), and Japan (3)

3.14 In the case of corruption suspected or revealed in your entity, would internal audit be involved in its investigation? If not internal audit, who would investigate? *Answers to this second question have not been included.*

Yes, all the time	25	34%
Yes, some times	11	15%
No	32	44%
Not applicable	1	1%
Missing response	4	5%

n=73. Missing responses relate to Australia (1), Bulgaria (1) and Japan (3),

3.15 Does your entity possess an anti-corruption policy?

Yes	45	61%
No	21	29%
Not applicable	0	0%
Missing response	7	10%

n=73. Missing responses relate to Australia (1), Bulgaria (1), Finland (1) and Japan (4).

3.16 If so, who is responsible for maintaining this policy? *Not included.*

3.17 Do you consider anti-corruption procedures in your entity to be sufficient?

Yes	48	66%
No	11	15%
Not applicable	0	0%
Missing response	14	19%

n=73. Missing responses relate to Australia (2), Bulgaria (1), France (1), the Netherlands (1), the United States (1), Brazil (2), Sweden (2) and Japan (4).

3.18 If not, what plans does your entity have to improve them? *Not included.*

3.19 Does internal audit perform work specifically to detect corruption?

Yes	11	15%
No	53	73%
Not applicable	1	1%
Missing response	8	11%

n=73. Missing responses relate to Australia (1), Bulgaria (2), Finland (1), Japan (4) and the United States (1).

3.20 If so, provide 2 to 3 examples of such work in the last 2/3 years. *Not included.*

Annex E

Results to the follow up questionnaire

From the list of factors below, participating ministries had to indicate those which are (up to) the 4 (maximum) **most important or crucial for success** in enhancing Internal Audit's contribution to preventing, detecting and reporting of fraud and corruption, according to respondent's point of view.

Criteria proposed

1. A reporting line for the internal audit (IA) function (separate or not from other functions) to the highest authority in the ministry.
2. A dual reporting line to an independent audit committee, i.e. a body comprised mainly of non-executive members, designed to oversee audit work plans and recommendations.
3. A control framework which would mention internal control as a key means for preventing fraud and/or corruption.
4. A clearer mandate for IA function which would include the responsibility to evaluate the risks of fraud and/or corruption in the ministry.
5. A clearer mandate for the IA function which would include advising management on the prevention of fraud and corruption in your Ministry/entity.
6. A duty for the IA function to express an overall opinion on internal controls in place, including those designed to prevent and detect fraud and corruption.
7. A periodic evaluation by IA of the system in place in the ministry for preventing, detecting and reporting fraud and/or corruption, i.e. including all oversight functions: compliance, investigations, ethics.
8. A system to strengthen the efficiency with which IA recommendations are implemented.
9. In case of a separate unit *within the ministry* in charge of investigating and reporting on fraud and corruption, a system of periodic exchanges of information with the IA function on cases of fraud and/or corruption.
10. In case of a separate unit *outside the ministry* in charge of investigating and reporting on fraud and corruption, a system of periodic exchanges of information with the IA function on cases of fraud and/or corruption.

11. In case of a separate unit *within the ministry* in charge of investigating and reporting on fraud and corruption, a system of joint undertakings with IA on the subject of fraud and/or corruption.
12. In case of a separate unit *outside the ministry* in charge of investigating and reporting on fraud and corruption, a system of joint undertakings with IA on the subject of fraud and/or corruption
13. In the case of a separate unit *within the ministry* in charge of investigating, and reporting on fraud and corruption a common hierarchical authority.

Results of the follow up questionnaire

- Percentage of responses received

The table below shows the number of responses received to the follow up questionnaire compared to the number of participating ministries invited to respond.

Statistics	Australia	Brazil	Bulgaria	Canada	Finland	France	Japan	Netherlands	South Africa	Sweden	United Kingdom	United States	Total
Number of ministries invited to answer	4	5	12	6	5	4	6	11	4	5	6	5	73
Number of ministries who answered	4	-	10	5	3	4	3	1	2	5	6	4	47
Percentage of responses received	100%	0%	83%	83%	60%	100%	50%	9%	50%	100%	100%	80%	64%

Note: for Netherlands, one completed follow up questionnaire was sent on behalf of the 11 participating ministries

- Frequency at which each criteria was chosen

The table below illustrated the number of times out of the number of received answers per country, each criteria was selected as being part of the 4 most important factor to improve IA's contribution in preventing, detecting and reporting fraud and/or corruption.

Proposed criteria	Australia	Bulgaria	Canada	Finland	France	Japan	Netherlands	South Africa	Sweden	United Kingdom	United States	Total
1	4/4	5/10	4/5	2/3	3/3	2/3	1/1	1/2	2/5	4/6	3/4	31
2	1/4	1/10		1/3	1/3	1/3		1/2		4/6		10
3		9/10	4/5	2/3	3/3	2/3	1/1		3/5	3/6	4/4	31
4	1/4	2/10	2/5	2/3	2/3	1/3	1/1			1/6		12
5	4/4	4/10	2/5						1/5	1/6	1/4	13
6		5/10	1/5	2/3	3/3				2/5	3/6		16
7		3/10	3/5	1/3	1/3	1/3	1/1	2/2	1/5	2/6	2/4	17
8		1/10		2/3	1/3	2/3		1/2	4/5	1/6	3/4	15
9	1/4	2/10	3/5		2/3			1/2	3/5	3/6	1/4	16
10	2/4	1/10						1/2	1/5	2/6	1/4	8
11		2/10	1/5						2/5			5
12		2/10										2
13	3/4	3/10						1/2	1/5			8
Total												184

- Weight of each criteria

In order to measure the weight of each criterion in responses received, marks were given to each criterion selected depending on its rank. Rules were as follows:

- Criterion ranked as first key factor: 4 points
- Criterion ranked as second most important key factor: 3 points
- Criterion ranked as second most important key factor: 2 points
- Criterion ranked as second most important key factor: 1 point

The table below summarizes the results:

Proposed criteria	Australia	Bulgaria	Canada	Finland	France	Japan	Netherlands	South Africa	Sweden	United Kingdom	United States	Total
1	16	15	13	6	9	3	11	3	4	13	10	103
2	1	1		3	2	1		4		12		24
3		29	13	5	10	8	44		9	8	13	139
4	3	5	3	6	5	2	22			2		48
5	11	8	3						3	3	1	29
6		7	3	2	6				4	6		28
7		7	10	4	3	4	33	6	2	7	4	80
8		2	0	4	2	6		4	6	2	6	34
9	2	3	4		3			1	11	5	1	30
10	3	2						2	1	2	2	12
11		5	1						7			13
12		4										4
13	4	9						1	3			17

