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

Presented and discussed at a Seminar organised jointly by

OECD Internal Audit
OECD Public Governance and Territorial Development Directorate

In partnership with

The Institut Français de l’Audit et du Contrôle Internes (IFACI), the French affiliate of The Institute of Internal Auditors (The IIA)

Wednesday, 13 April 2011, 14:00-19:00
OECD Conference Center, Paris, France
Part I
(14:15 – 15:00)

Introduction

Seminar objectives

To gather experience from, and debate on, the challenges facing public officials on internal control and internal audit, representatives of their professional associations, and experts on integrity and the prevention of fraud & corruption.

Part I objectives

To discuss the responses of 73 Ministries in 12 countries participating in the survey, the basis of the seminar report.
Methodology

• Project steering committee

• Survey instrument

• Collection of data from 73 ministries in 12 countries

• Internal audit country profiles

• Follow-up questionnaire: ranking 4 out of 13 most important factors

• Final report – no representation official country position
Chapter 1 – Governance

1.1 Internal audit reporting line

1.2 Internal audit additional reporting line

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

1.4 Communication to external audit of internal audit work and findings

1.5 Fraud and corruption risk management
Chapter 2 – Internal audit mandate / scope of work

2.1 Reference to fraud and corruption in internal audit mandate

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

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

Chapter 3 – Internal audit proficiency and professionalism
Chapter 1: Governance
Section 1.1
Internal audit reporting line

![Diagram showing internal audit reporting line across different countries.

Legend:
- Head of State
- Minister, Secretary, Head of National Department
- Deputy Minister, Deputy Secretary, Deputy Head of Department
- Director General, Chief Executive Officer
- Finance and Accounts Officer, Head of Branch/Department
- No Response]
Follow-up questionnaire

66% consider that reporting line for IA to the highest authority is:
- the 2nd most important criteria to improve IA contribution to prevention, detection and reporting of F&C

Noteworthy
- Australia and the United Kingdom: some report to intermediate level, but all recognize importance of reporting to highest authority
- Japan and South Africa: reporting to highest authority ranked after other factors
Conclusion

Clear majority considers reporting to highest authority a key factor in guaranteeing independence
Section 1.2
Internal audit additional reporting line

Survey results

Two categories of respondents:

i) Those for whom there is no second reporting line for IA
   5+: Bulgaria, Brazil, Finland, Japan, 50% of French, and Sweden

ii) Those for whom there is a second reporting line for IA
Second reporting line:

• In the case of the United States, a second reporting line to Congress

• An Audit Committee
5+: Australia, Canada, the Netherlands, South Africa, United Kingdom, 50% French

Independent from Executive Management?

46% of respondents have an audit committee, of which:
• 52% are totally or substantially independent
• 39% are semi-independent
• 6% are fully internal
Follow-up questionnaire

21% consider that a second reporting line is: 1 of the 4 most important criteria to improve IA contribution to F&C.

Noteworthy

Australia: Audit Committee mandates include monitoring of risks, including fraud.
Conclusion

Recognition of importance of a second reporting line...

Survey: slight majority

Follow-up: diverging views
Section 1.3
Internal Audit and Fraud & Corruption: allocation of responsibilities

Survey results
Categories:

A) IA and F&C investigation exist together under same head
   • 2: United States; Finland

B) In some ministries, both exist separately but within the same ministry
   • 7: Australia; Bulgaria; Canada, France, the Netherlands, Sweden, the United Kingdom
Survey results
Categories (continued):

C) Both exist separately, and, in some ministries, F&C investigation exists outside the ministry
2: Brazil, South Africa

D) Japan: no specific F&C investigation function
Survey results (continued)

Integrity more or less supported with F&C investigation and IA existing under same head or separately?

• no clear majority opinion
Follow-up questionnaire

Australia; Bulgaria; Canada; France; South Africa; Sweden; United Kingdom consider that, where the two functions exist separately but within the same ministry, a system of periodic exchange of information on F&C cases:

- 4th most important criteria to improve IA contribution to F&C.
Conclusion

Considerable variation:
• in extent to which F&C investigation and IA exist under same Head or separately
• in opinion as to whether integrity is enhanced when entities are together or separate
Conclusion

Weakness when functions separate:
• in exchange of information
• in IA knowledge of fraud cases
• in IA risk-based planning process
Section 1.5
Fraud and Corruption risk management

« Existence of an internal control framework as reported by respondents »
« Management’s responsibility for internal control »
« Measures to prevent and build resistance to corruption in financial transactions »
Follow-up questionnaire

9: For Australia; Bulgaria; Canada; Finland; France; Japan; Netherlands; Sweden; United Kingdom a control framework mentioning internal control as a key means for preventing Fraud and Corruption is:

• ranked as the **no. 1 factor** to improve IA contribution to prevention, detection and reporting of F&C
Conclusion

“Internal Control Framework”:

• Lacks formalization
• Too often limited to financial/budgetary
Chapter 2: Internal Audit Mandate/Scope of Work
Section 2.1
Reference to F&C in internal audit mandate

Fraud

Corruption
IA involvement in prevention, detection, reporting F&C - correlation with explicit reference to F&C in IA mandate

Degree of involvement of IA in prevention, detection, reporting F&C – based on 7 survey questions relating to fraud and 5 survey questions relating to corruption
“Degree of involvement of IA in prevention, detection, reporting fraud. No direct reference to fraud in IA mandate »
“Degree of involvement of IA in prevention, detection, reporting fraud. IA and investigation functions under same head, and direct reference to fraud in IA mandate »
“Degree of involvement of IA in prevention, detection, reporting corruption. No direct reference to corruption in IA mandate”
“Degree of involvement of IA in prevention, detection, reporting corruption. IA and investigation functions under same head, and direct reference to corruption in IA mandate »
Follow-up questionnaire

Extent to which inclusion of evaluation of fraud/corruption risks in IA mandate is ranked an important factor to improve IA contribution to F&C:

Bulgaria; Japan; Netherlands: ranked 1st most important
Sweden; the United Kingdom: ranked 2nd second most important
South Africa – no respondent ranked this issue
Canada and Finland: no reference to F&C in the IA mandate, but reference to The IIA Standards.
Conclusion

IA involvement in prevention, detection and reporting of F&C increases where IA mandate includes explicit reference to:

• Evaluation of controls over risks of F&C, or

• IIA Standards
Section 2.2
Assessment of system in place to mitigate F&C risks

“Establishment of an IA activity report”
Extent to which sampled IA functions report at least annually on F&C risks

Close to 100%: Bulgaria; France; Netherlands; South Africa; the United Kingdom; the United States

Majority: Australia; Canada; Sweden

Minority: Finland; Japan
Opinion of respondents on procedures to prevent and combat F&C

For a third of survey participants, current procedures in place are not sufficient
Opinion of IA on procedures in place to prevent and combat fraud
Opinion of IA on procedures in place to prevent and combat corruption
Noteworthy

Australia: ministries required by law to establish “Fraud Control and Corruption Prevention Plan”

The Netherlands: the SAI has conducted a nation-wide study on how government departments deal with integrity issues

South Africa: ministry has a “Fraud Prevention Plan” for prevention and detection of fraud and corruption
**Conclusion**

- 21% signaled plan to improve periodic reporting
- Periodic reporting ranked 3rd out of the 13 most important factors to improve IA contribution to prevention, detection and reporting of F&C
- Ranked 1st for Australia; Canada; Finland and the United Kingdom
Section 2.3
Inclusion of F&C in the Internal Control Framework

Survey results

- 10% of respondents do not acknowledge the existence of an ICF similar to COSO
- For 14%, there is no clear designation of responsibility for internal control
- For 15%, management is not responsible for prevention of F&C
- Only 44% indicate intention to strengthen ICF
Noteworthy

- Finland: in 3 out of 5 ministries management has no responsibility for F&C prevention, do not possess a code of conduct/ethics, do not provide ethics training to staff
- Bulgaria: IA in 1 ministry has already audited ethics framework
- France: 2 out of 4 ministries have an ICF – emphasis on ethics awareness and training
- Canada: systematic periodic assessment of control environment by 1 IA function of public agencies beyond ministry.
Conclusion

Role for IA to go beyond pure compliance
Chapter 3: Internal Audit Proficiency and Professionalism
Survey results
IA staff required / encouraged to have specific professional qualifications

<table>
<thead>
<tr>
<th>Fields of qualifications</th>
<th>Required/Encouraged</th>
</tr>
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<tbody>
<tr>
<td>Audit</td>
<td>85%</td>
</tr>
<tr>
<td>Accounting/Finance</td>
<td>68%</td>
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<tr>
<td>IT</td>
<td>66%</td>
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<tr>
<td>Investigation</td>
<td>45%</td>
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<tr>
<td>Other</td>
<td>29%</td>
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</tbody>
</table>

“Fields of qualifications required and/or encouraged for internal auditors”
**Noteworthy**

- **Japan:** no specific qualifications but training from Board of Audit

- **Bulgaria:** for 2 respondents the requisite is a national certificate on internal audit in the public sector issued by Ministry of Finance

- **Australia; Canada; Sweden; UK; USA:** qualifications of specialized professional institutes are preferred

- **External independent evaluation – implemented by 81% of respondents**
Conclusion

Capability exists, but what are the elements to be improved for IA to enhance its contribution to combating Fraud & Corruption?
Comments/Questions on survey results?