Greece-OECD Project: Technical Support on Anti-Corruption

Guidelines on Internal Audit Implementation in Greece
About the OECD

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About the Greece-OECD Project

The Greek government is prioritising the fight against corruption and bribery and, with the assistance of the European institutions, is committed to taking immediate action. Under the responsibility of the General Secretariat Against Corruption, Greece’s National Anti-Corruption Action Plan (NACAP) identifies key areas of reform and provides for a detailed action plan towards strengthening integrity and fighting corruption and bribery. The OECD, together with Greece and the European Commission, has developed support activities for implementing the NACAP. This project is scheduled for completion in 2018 and is co-funded by the European Commission and Greece. For further information, please see the project webpage.
Acknowledgements

These guidelines are a collaboration between the General Secretariat Against Corruption (GSAC) and the Organisation for Economic Co-operation and Development (OECD). It represents the efforts of many individuals and organisations. The preparation of the manual was led by Terry Hunt and Angelos Binis, with the valuable guidance of Julio Bacio Terracino and Sarah Dix. Research assistance was provided by Katerina Kanellou and Pelagia Patsoule. Laura McDonald managed communications and editing, with contributions from Elizabeth Zachary, Julie Harris and Meral Gedik. Alpha Zambou and Paraskevi Akrivaki provided essential administrative support.

The OECD expresses its gratitude to the Government of Greece, and in particular, GSAC, for their support and inputs throughout the project. The OECD also wishes to thank the Structural Reform Support Service (SRSS), European Commission, for its active participation and financial support.
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Introduction

This document presents the implementation guidelines for a proposed three-year initiative to modernise and strengthen audit within the Greek central public administration. It is a companion document to the “Technical Report on Internal Audit: Mapping and Gap Analysis”, the “Internal Audit Manual” and the “Core Control Audit Programme” undertaken as part of this technical assistance project.

Its purpose is to help standardise and modernise audit practices across all ministries and decentralised administrative bodies. It includes a clear articulation of roles and responsibilities, tangible deliverables and reform targets, as well as strong monitoring and reporting requirements.

Background

The General Secretariat Against Corruption (GSAC), Ministry of Justice, Transparency and Human Rights; the Structural Reform Support Service (SRSS), European Commission; and the Organisation for Economic Co-operation and Development (OECD) are key stakeholders in the Greece-OECD Technical Support Project on Anti-Corruption. One of its components aims to contribute to strengthening internal control systems and internal audit functions for increased accountability and good governance.

The public administration in Greece is in the process of modernising its control framework. Within such a model, implementing a modern approach to internal audit becomes increasingly important. Contemporary internal control system holds all public institutions accountable. It requires each public institution to administer its own internal control programme and is based on the premise that each institution ought to manage its finances in delivering outputs. Thus, public institutions are required to ensure rigorous financial controls, i.e., put in place a comptrollership function.

Contemporary internal controls are embedded in an entity’s managerial processes as checks and balances performed at all layers. Norms and values are internalised rather than being imposed externally. More emphasis is given to horizontal and hierarchical interactions within the institution. Contemporary internal control, therefore, assigns responsibilities to all staff and not only to the budget and accounting officials.

However, the success of an internal control system is profoundly affected not only by the attitudes of elected officials, management, and employees, but also by the establishment of safeguards. To this end, introducing a strong, independent internal audit function within each line ministry throughout the
Greek government is a critical component for supporting a decentralised internal control system.

Overview of initiative

The proposed three-year initiative aims to modernise internal audit (IA) in the Greek public administration. These guidelines cover twelve measures to be monitored, along with specific targets and timelines. Under the leadership of the General Secretariat Against Corruption (GSAC), the three-year initiative requires all ministries to be involved in strengthening their audit functions. Ministries are divided into three tiers based upon their current status of IA implementation, as per Figure 1 found at the end of this document. These guidelines, combined with the 25 recommendations in the OECD “Technical Report on Internal Audit: Mapping and Gap Analysis”, present a comprehensive approach to modernising the internal audit function in the Greek public service.

### Box 1. Three-year initiative to modernise ministerial IA units: Core deliverables

- Introduce a comprehensive, strategic legislative framework that harmonises previously disjointed, conflicting legislation regarding internal audit.
- Focus IA unit activities solely on independent audit activities.
- Increase audit independence by elevating the position of the head of internal audit into a chief audit executive.
- Require that all ministries create audit charters introducing ministerial audit committees (MAC) to increase audit independence and access to information.
- Introduce functional oversight by elected officials and the Audit Committee, along with administrative oversight by senior management, i.e. the General Secretary or equivalent position, to improve the efficiency and effectiveness of IA units.
- Require that ministries achieve concrete staffing targets for IA units.
- Strengthened central agency oversight by GSAC of IA with specific ministerial reporting requirements pertaining to implementation targets and timelines.
- Require that all ministries undertake and report on core control audits of management controls.
- Annual GSAC report to the Prime Minister on implementation status.
- Professional development activities such as mandatory training and membership in professional bodies such as the IIA, as well as promotion
Mission of Internal Audit

The mission of the internal audit function is to provide independent and objective assurance services designed to add value and improve government operations. It helps the government accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, internal control and governance frameworks and processes.

Proposed legislative reform

A key step in modernising internal audit in Greece includes the development and introduction of a comprehensive reform of the legislative framework governing internal audit that combines and streamlines all previous independent pieces of legislation.

A comprehensive law streamlining and clarifying all previous measures is recommended to be introduced, consistent with international auditing standards as set out in the Institute of Internal Auditors (IIA) standards and code of ethics.

As part of the modern legislative framework, the position of the head of internal audit would be elevated to a chief audit executive (CAE). This would support increased independence and underline the important role of internal audit in providing independent support to senior management. The secretary general, or equivalent, would be responsible for nominating a qualified CAE to the minister. This position would have a functional reporting requirement to the minister and clearly articulated administrative reporting requirements to the secretary general and the ministerial audit committee. Such a move would promote increased rigour and independence of internal audit. It would also strengthen internal audit's role in providing senior management within ministries support regarding assurance of conformance with government laws and regulations, as well as performance information regarding the functioning of ministry operations.

Ministry audit committees (MAC)

Ministerial audit committees provide objective advice and recommendations to head of the organisation and the general secretary or regarding the adequacy, the quality and proper functioning of the ministry's risk management, control
and governance frameworks and processes (including accountability and auditing systems). These committees typically meet three to four times a year.

As the lead central agency responsible for internal audit, GSAC should require all heads of ministries to establish and maintain an independent audit committee comprised of senior ministry officials and one or two external members from organisations such as the Court of Auditors or an inspection body.

**Risk-based audit planning**

As part of the risk-based audit planning process, the internal audit unit, in collaboration with senior management, will conduct an annual departmental risk assessment that includes all functional areas. The purpose of the assessment is to identify, prioritise and schedule audit projects for the following two years, based on areas of higher risk and significance. At the end of the assessment a risk-based audit plan is drafted and presented to the MAC. They will review the report and recommend that the general secretary approves it and that it is submitted to the minister.

While the internal audit units carry out audits in accordance with the approved risk-based audit plan, the CAE and internal auditors stay alert to any emerging risks, priorities and/or senior management requests. Status reports, including a mid-year update, are presented to MAC.

**Standardised audit processes**

As outlined in the Audit Manual, these guidelines will require all ministries to adopt and follow a standardised approach to undertaking audits. These guidelines include the following three phases involved in an internal audit project: planning, conducting and reporting.

**Planning phase**

The purpose of the planning phase is to gain a good understanding of the audit entity, including: its management and business processes and practices; legislation, policies and procedures; and the external and internal environment. In this phase, auditors review key documents, conduct preliminary interviews and perform a detailed risk assessment of the audit entity to confirm the audit objective and determine the key areas that warrant further examination.

The audit plan (or terms of reference) is drafted at the end of the planning phase. It describes the audit entity, objective, scope, criteria and timeframes, as well as the approach used to assess selected areas against the audit criteria. A brief summary of this plan is provided to audit entity management to obtain
their agreement on the established audit criteria and to keep them informed of the results of the planning activities and the timeframes of the audit.

**Conducting phase**

Once the audit plan is approved by the CAE, the audit team conducts the audits following the approach outlined in the audit plan. At this stage, auditors review all key documents, conduct additional interviews, test key controls and gather and analyse data from various sources. At the end of this phase, auditors provide a formal debriefing on the findings to the audit entity management. During the debriefing, management is invited to make comments, provide feedback and/or confirm the factual accuracy of findings for auditors to consider before completing the detailed audit work and starting the writing of the audit report.

**Reporting phase**

During the reporting phase, auditors draft an audit report that includes findings and recommendations for when actions are considered necessary. This report is submitted to audit entity management for validation of the content, including the findings. A formal management response, including an action plan when deemed appropriate, is requested by the CAE. The action plan is assessed by auditors, integrated into the draft audit report and presented to the MAC for review and recommendation. Senior management is asked to attend this meeting to discuss the content of the draft audit report with MAC members. Following recommendation by the MAC, the draft audit report is submitted to the minister.

**Management action plans (MAP)**

The internal audit unit requests a status update at the conclusion of each fiscal year of all outstanding MAPs that respond to internal and external audit recommendations. For all completed actions, supporting documentation is requested to enable the internal audit unit to understand the extent to which audit recommendations have been implemented. Results and identified residual risks are subsequently reported to the MAC and senior management.

**Increased independence**

**Access to ministerial information**

IIA standards require that the head of the organisation and the General Secretary provide the CAE with access to all ministerial records, databases, workplaces and employees, and ensure that the CAE has authority (within the context of carrying
out its audit projects) to obtain information and explanations from ministerial employees and contractors.

**Functional versus administrative reporting**

Maintaining audit independence is vital for audit to be able to add value to an organisation. Distinguishing between administrative reporting relationships and functional reporting relationships can help to enhance an independent audit function.

An administrative reporting relationship establishes a clear line of authority between the Internal Audit Unit and the internal senior management of the ministry, versus a functional reporting relationship with the minister who provides broad direction.

**Implementation action plan: Clear reform targets**

Figure 1 presents a tiered approach to implementation whereby the initiative is spearheaded by a group of ministries. This will enable GSAC to promote best practices and draw upon lessons learned as standardised audit practices are established across the Greek public service.

Table 1 below presents 12 measures, along with specific reform targets, which represent the three-year initiative to modernise internal audit in the Greek public administration. Under the leadership of GSAC, the three-year initiative requires all ministries to be involved in strengthening their audit functions. Ministries are divided into three tiers based upon their current status of IA implementation. This plan, combined with the recommendations of the OECD “Technical Report on Internal Audit: Mapping and Gap Analysis”, represents a comprehensive approach to modernisation.

**Ongoing learning**

The success of this initiative will also require the involvement of other central agencies, particularly the National Centre of Public Administration and Local Government, as well as collaboration with the professional development body for internal auditors – the Hellenic Institute of Internal Auditors (HIIA). A key success factor will be political and senior level support, which underlines the need for regular reporting to the prime minister and Parliament.
Figure 1. Tiered approach to implementing the three-year initiative to modernise internal audit in the Greek public service

First Wave
Tier One Ministries
- Ministry of Administration Reform
- Ministry of Justice, Transparency and Human Rights
- Ministry of Finance
- Ministry of Health
- Ministry of Interior
- Ministry of Agricultural Development and Food

Second Wave
Tier Two Ministries
- Ministry of Employment, Social Insurance and Social Solidarity
- Ministry of Education, Research and Religious Affairs
- Ministry of Shipping and Island Policy
- Ministry of Tourism
- Ministry of Culture and Sports
- Ministry of Economy and Development

Third Wave
Tier Three Ministries
- Ministry of Infrastructure and Transport
- Ministry of Immigration Policy
- Ministry of Digital Policy, Telecommunications and Information
- Ministry of Environment and Energy
- Ministry of National Defence
- Ministry of Foreign Affairs

Three Year Initiative
- 2017-2018
- 2018-2019
- 2019-2020

Ongoing Sustainability
- 2020 and beyond
<table>
<thead>
<tr>
<th>Requirements</th>
<th>Targets</th>
<th>Deliverables</th>
<th>Timeline</th>
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</thead>
<tbody>
<tr>
<td><strong>Modernise IA initiative commitments</strong></td>
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<tr>
<td>• Establish an IA charter</td>
<td>100% of ministries within Year 1.</td>
<td>• Submit an IA Charter to GSAC signed by the minister assuring the</td>
<td>Tiers 1, 2 and 3</td>
</tr>
<tr>
<td>• Establish ministry audit committee (MAC) and MAC charter</td>
<td>100% of ministries within 2 years.</td>
<td>independence of the audit function.</td>
<td></td>
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<tr>
<td>• Increase IA staffing and IA unit resources and infrastructure similar to</td>
<td>At least 1 auditor for every 600 employees (with a minimum of three</td>
<td>• Organisational design and job descriptions. • Adequate expenditures and</td>
<td>Tier 1</td>
</tr>
<tr>
<td>the lower levels of average public sector organisations (national and</td>
<td>auditors).</td>
<td>human resources devoted to internal audit.</td>
<td>Tier 2</td>
</tr>
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<td>international)</td>
<td></td>
<td></td>
<td>Tier 3</td>
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<tr>
<td>• Report to GSAC</td>
<td>100% of ministries reporting every year.</td>
<td>• Annual Report to GSAC (or as requested) using prescribed reporting</td>
<td>Tiers 1, 2 and 3</td>
</tr>
<tr>
<td>• Audit engagement reporting</td>
<td>100% of ministries prepare an audit readiness report within 3 years.</td>
<td>templates. Key reporting requirements, such as number of auditors</td>
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<td>• Assess fraud risk</td>
<td>100% of ministries within 3 years.</td>
<td>• Undertake at least one to three core control audits of high risk areas</td>
<td>Tiers 1 and 2 and 3</td>
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<td>each year and submit them to GSAC.</td>
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<td></td>
<td></td>
<td>• Undertake a fraud risk self-assessment and submit to GSAC.</td>
<td>Tiers 1, 2 and 3</td>
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<tr>
<td>Requirements</td>
<td>Targets</td>
<td>Deliverables</td>
<td>Timeline</td>
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<tr>
<td>• Professionalise</td>
<td>100% of all auditors within 3 years</td>
<td>• IIA membership and support employee accreditation.</td>
<td>Year 1</td>
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<tr>
<td>• Modernise the legislative framework, replacing existing legislation with one comprehensive piece of legislation. Implement recommendations from the “Technical Report on Internal Audit: Mapping and Gap Analysis”.</td>
<td>Legislation developed and approved within 1.5 years.</td>
<td>• Full legislative package prepared and approved by Parliament.</td>
<td>Year 2</td>
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<td>• Full implementation of recommendations from the “Technical Report on Internal Audit: Mapping and Gap Analysis”, such as creation of staffing registry with fixed terms for auditors.</td>
<td>Year 3</td>
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<td>• Implement central agency unit responsible for policy direction, monitoring and evaluation.</td>
<td>10 to 15 full time equivalents (FTEs) in central agency.</td>
<td>• Responsible for providing policy direction, capacity building, and monitoring.</td>
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<td>• Hold annual meeting of the audit community focused on providing policy direction, feedback on the state of health of IA. Promote professional development.</td>
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<td>• Prepare report to Parliament on the health of the IA function within the Hellenic Republic, as well as a summary of key audit findings, recommendations and impacts on promoting improved government performance efficiency and effectiveness.</td>
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<tr>
<td>Requirements</td>
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<td>• Report to prime minister on implementation plan status.</td>
<td>Every 6 months.</td>
<td>• Implement monitoring regime (i.e. develop reporting template and have each ministry report every six months on progress achieved) for the implementation of plan.</td>
<td>Year 1</td>
</tr>
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<td>• Implement a mandatory training programme involving stakeholders such as the the National Center of Public Administration and Local Government, and the Hellenic IIA.</td>
<td>All auditors trained within 3 years.</td>
<td>• Create learning package including trainer’s manual and student manual. • Require all auditors and investigators to take the five-day course based upon the new audit manual. • Training courses provided every two months until all auditors and investigators have been trained. Thereafter provided as needed with a minimum delivery of every year.</td>
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<td>• Implement E-Platform to track number of audit and investigations. Provide risk-based information to develop annual audit planning.</td>
<td>Investigation and audit reports collected.</td>
<td>• Implement E-Platform whereby all audit and investigation reports are accessible.</td>
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<tr>
<td>• Ensure full implementation of IA requirements according to the relevant legal framework.</td>
<td>All organisations above EUR 3 million report on compliance with Law 3429/2005.</td>
<td>• All public organisations which satisfy the threshold of the law (i.e. those with budget expenditures over EUR 3 million) establish an internal audit function</td>
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GUIDELINES ON INTERNAL AUDIT IMPLEMENTATION IN GREECE