

# **INSTITUTE OF INTERNAL AUDITORS FIJI 2013 ANNUAL CONFERENCE**

## **DEVELOPMENT OF INTERNAL AUDIT FUNCTION IN GOVERNMENT ENTERPRISES**

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# PRESENTATION OUTLINE

- Internal audit function
- Government Enterprises
- The need for IAF in Government Enterprises
- Development of IAF in Government Enterprises- A Fiji Case Study
- Conclusion

# INTERNAL AUDIT FUNCTION

*Institute of Internal Auditors definition of IA*

- internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.
- helps an organisation accomplish its objectives by bringing systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

# INTERNAL AUDIT FUNCTION

Standard 2100 states that the nature of the work of the IAF is to evaluate and improve the effectiveness of the three processes including:

1. risk management-identification and evaluation of potential risks that might affect the achievement of objectives of an organisation and determination and adequate corrective actions
2. Control- policies, procedures and activities which ensure that risks are kept within the limits defined by management in the risk management process.
3. Governance- procedures which allow stakeholders to evaluate risk and control processes defined by management.

# INTERNAL AUDIT FUNCTION

- has been a recognized component of organizations in both the public and private sectors and in most Industries for many years
- in today's environment IAF has become a major support function for management, audit committee, the BOD and external auditors.
- function is not limited to the operation of any particular function within an organization; rather, it is all-embracing and accordingly is structured in the organization as a separate entity responsible only to a high level of management.

# INTERNAL AUDIT FUNCTION

Among other functions within an organisation the position of the IAF is fairly unique in terms of:

1. advantageous position within the organisation
2. the wide range of functional areas that it examines
3. different types of audits capable of being performed
4. the multidisciplinary backgrounds of individual auditors comprising of internal audit team

# GOVERNMENT ENTERPRISES

- A legal entity that is created by the government in order to partake in commercial activities on the government's behalf.



- It can either be wholly or partially owned by a government and participates in commercial activities.



# KEY CHARACTERISTICS OF GE's

## 1. State ownership:

- A public enterprise is owned by the Government.

## 2. State control:

- The ultimate control of a GEs lies with the Government which appoints its Board of Directors and the Chief Executive.

## 3. Government financing

- The whole or a major portion of the capital of a public enterprise is provided by the Government.

# KEY CHARACTERISTICS OF GE's

## 4. Service motive:

- The primary aim of a GEs is to render service to the society at large. It may have even to incur losses for this purpose. However, public enterprises are expected to generate surplus in course of time.

## 5. Public accountability:

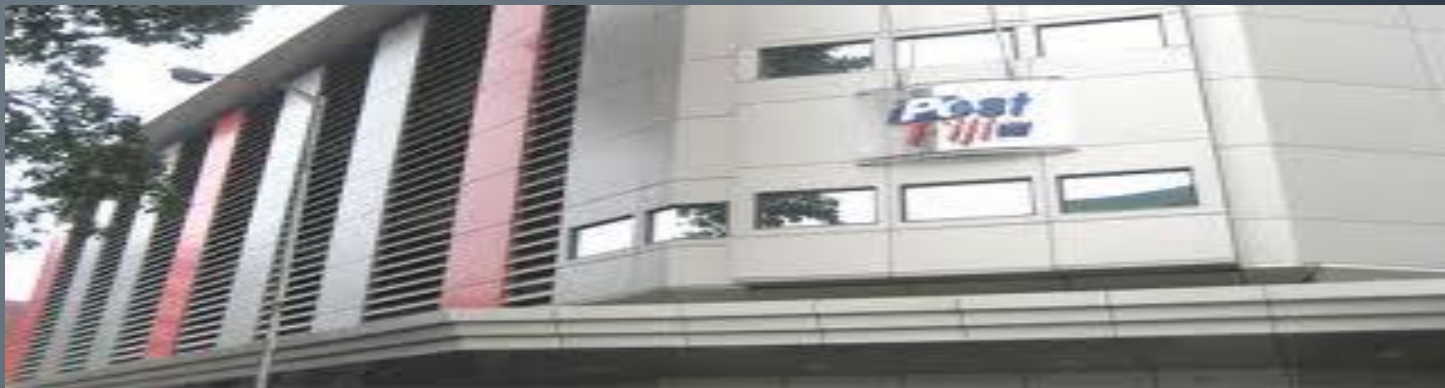
- Public enterprises are financed out of public money. Therefore, they are accountable for their results to the elected representatives of the public.

## 6. Autonomous Bodies:

- Public enterprises are autonomous or semi-autonomous bodies. In some cases they work under the control of Government departments.

# IMPORTANCE OF GOVERNMENT ENTERPRISES

- Its main aim is to promote economic and social development. It helps to run all the works of development in an efficient manner.



- Government enterprises provide the utility of transportation, water supply, electricity, communication, education, health facilities and so on to the public.

## IMPORTANCE OF GOVERNMENT ENTERPRISES

- Government enterprise provides goods and services to the public at reasonable price.
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- They help to create the employment opportunities in the society.
- They help to remove economic inequality.

# THE NEED FOR IAF IN GOVERNMENT ENTERPRISES

- Complex and changing environment
- Board of Directors has the responsibility of ensuring the governance framework
- Has the potential to significantly affect the operations of the entity and may have an impact on the ability of the entity to remain as a going concern

# DEVELOPMENT OF IAF- A FIJI CASE SCENARIO

Basic information of Government enterprises in Fiji

- Government enterprises mainly are a product of government reforms
- Government enterprises in Fiji are governed by the Public Enterprise Act
- The line Ministry mainly responsible for government enterprises is the Ministry of Public Enterprise and Tourism
- The Ministry of Public Enterprise and Tourism has developed a Corporate Governance framework for GEs to comply with

# DEVELOPMENT OF IAF- A FIJI CASE SCENARIO

Current number of government enterprises

Type of GE	Number of GEs
Government Commercial Companies (GCC)	11
Commercial Statutory Authority (CSA)	4
Majority Owned Companies	1
Restructuring entities	3
<b>TOTAL GOVERNMENT ENTERPRISES</b>	<b>19</b>

Source: Ministry of Public Enterprise

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

1. Whether IAF does exists?
2. Whether IAF is provided internally or externally?
3. Internal Audit Charter
4. Existence, composition and charter of audit committee
5. Code of Ethics for IA
6. Resourcing of the IAF
7. Areas covered by IAF



# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

## 1. GEs having IAF

Type of GEs	Total Number	Having IAF	Not having IAF
GCC	11	6	5
CSA	4	2	2
MOC	1	1	0
RE	3	1	2
TOTAL	19	10	9

- 10 GEs currently have IAF and 9 do not have IAF.
- Out of the 10 that has IAF 6 or 60% are GCCs and 4 or 40% are either CSA, MOC or RE

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

## 2. IAF is provided internally or externally?

Type of GEs	Number with IAF	Internally	Externally
GCC	6	5	1
CSA	2	2	0
MOC	1	0	1
RE	1	1	0
TOTAL	10	8	2

- 8 of the 10 GEs have the IAF currently provided internally. 5 of these GEs are GCCs
- 2 of the 10 GEs have the IAF currently provided externally
- However 4 of the GEs that now provide IAF internally started with providing the function externally. 2 of these agencies are GCC, 1 CSA and 1 RE.

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

## 3. Existence of an Internal Audit Charter

- Regardless of jurisdiction where the organisation operates it is important that the purpose, authority and responsibility of the IAF are formally defined in a charter.
- The IIA's International Professional Practices Framework (IPPF) through standard 1000 requires that:

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter consistent with the definition of internal auditing, the Code of Ethics and the Standards.

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

## Internal Audit Charter

Type of GEs	Number with IAF	Having IAC	Not having IAC	Currently being developed
GCC	6	2	3	1
CSA	2	2	0	0
MOC	1	0	1	0
RE	1	0	1	0
TOTAL	10	4	5	1

- Of the total 10 GEs that have IAF 4 have an IA Charter, 5 do not have the Charter and 1 is currently developing its Charter

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

## Audit Committees

- Audit committees play an integral role in the governance framework of public entities.
- An audit committee establishes the importance and executive direction for an IAF and ensures that an organisation derives maximum value from the IAF.
- The audit committee in concert with executive management, can play a critical role in empowering and elevating the image of the internal audit activity ensuring that it is not misunderstood.

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

## Existence of Audit Committee in GEs

Type of GEs	Number of GEs	With AC	Without AC
GCC	11	5	6
CSA	4	3	1
MOC	1	0	1
RE	3	1	2
TOTAL	19	9	10

- Of the total 19 GEs, 9 have IAC and 10 do not have AC

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

Responses also indicate that:

- 7 of the GEs that currently has GC in place have their Committee formed since the organisation became a GE whilst only 2 were formed recently in 2012 and 2013
- Membership of the Committee also increased slightly for most of the GEs
- For those that have AC most of the members have been in the Committee for 3 years or more

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

## Code of Ethics

- Standard 1100 states that internal audit activity must be independent and internal auditors must be objective in performing their tasks.
- Thus the Institute of Internal Auditing requires that a code of ethics is necessary and appropriate for the profession of internal auditing.



# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

- None of the GEs having IAF internally have developed a Code of Ethics separately for its IA Unit
- A few indicated that staffs of their IAU are required to comply with the Code of Ethics issued by the IIA
- A few indicated being in the process of developing the Code of Ethics

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

- Resourcing Internal Audit

- An internal audit function should have sufficient and appropriate resources to carry out its work, including skilled auditors, appropriate technology tools, budgets and professional development opportunities.
  
- IIA believes that internal auditing best addresses management's strategic objectives when internal audits are performed by competent professionals.

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

- Number of staffs in the IA Unit
- Of the 8 GEs that provide IAF internally:
  - ✓ 3 has 1 staff
  - ✓ 1 has 2 staffs
  - ✓ 1 has 3 staffs
  - ✓ 2 has 5 staffs
  - ✓ 1 has 7 staffs
- A few of the GEs indicated boosting the number of staffing for the Unit in the coming year.

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

- Qualification wise most of the GEs employ staffs with Masters, Postgraduate Diplomas and Degree qualifications.
- Some of the GEs indicated that qualification requirements for most positions in the Unit have changed since the commencement of the Unit.
- Most staffs in the Unit with only a Diploma qualifications have now obtained Degree qualifications or currently pursuing the qualification.

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

- One of the GE indicated that one of the Unit's staff is pursuing CIA
- Most of the staffs employed in the IAU unit of the various GEs are not members of the FIIA. Only 3 of the 8 GEs that has IAF internally indicated having staffs that are members of the FIIA.
- All GEs indicated provided training to its IAU staffs in the areas of auditing and accounting.

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

In regards to budget for the 8 GEs that has a separate IA Unit responses gathered the following:

- 1 is not allocated any budget
- 2 GEs do not have separate budget allocation for IA
- the remaining GEs are allocated budgets ranging from \$12,000 to \$78,000.

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

## Areas covered by IAF

- Most GEs that have IAF indicated that IA work cover the following:
  - ✓ Auditing
  - ✓ Risk Management
  - ✓ Internal control
  - ✓ Governance processes
  - ✓ Fraud control

# RESULTS OF SURVEY- DEVELOPMENT OF IAF IN GEs

- Additional areas indicated by some GEs include:
  - improving business performance ( e.g. increasing revenue, improving service delivery)
  - implementation of new programs, systems and processes
  - involvement in the tender process



# CONCLUSION

- IA is a long-standing function and an effective tool of management in many organizations
- IAF is critical for Government Enterprises mainly due to its unique characteristics.
- Generally the development of IAF in GEs in Fiji is slow but most of the enterprises are recognizing the importance of IAF and thus are making the effort to improve the operations of the function.

**THANK YOU FOR LISTENING!**