

**PRESENTATION TO THE
INSTITUTE OF INTERNAL AUDITORS
Intercontinental Golf & Spa, Natadola**

**BRIDGING THE DIFFERENCE BETWEEN
INTERNAL & EXTERNAL AUDITORS IN
THE PUBLIC SECTOR**

2013 IIA ANNUAL CONFERENCE

15 -17 NOVEMBER



Ministry of Finance

AUDITORS ARE OBVIOUS

- ❑ Once upon a time, there was a man looking after his flock of animals on the side of a deserted road. Suddenly, a brand new Porsche screeched to a halt.
- ❑ The driver, a man dressed in an Armani suit, Gucci shoes, Ray-Ban sunglasses, TAG-Heuer wrist-watch, and a Pierre Cardin tie got out and asked the shepherd.
- ❑ “If I can tell you how many sheep you have, will you give me one of them?”
- ❑ The shepherd looked at the young man, then looked at the large flock of grazing sheep and replied, “Okay.”

AUDITORS ARE OBVIOUS

- ❑ The young man parked the car, connected his laptop to the mobile-fax, entered a NASA Website, scanned the ground using his GPS, opened a database and 60 Excel tables filled with algorithms and pivot tables.
- ❑ He then printed out a 150-page report on his high-tech mini-printer, turned to the shepherd and said, “You have exactly 1,586 sheep.”
- ❑ The shepherd cheered, “That’s correct, you can have your sheep.”
- ❑ The young man took one of the animals from the flock and put it in the back of his Porsche.



AUDITORS ARE OBVIOUS

- ❑ The shepherd looked at him and asked, “If I guess your profession, will you return my animal to me?”
- ❑ The young man answered, “Yes, why not?”
- ❑ The shepherd said, “You are an Auditor.”
- ❑ “How did you know?” asked the young man.
- ❑ “Very simple.” answered the shepherd.

AUDITORS ARE OBVIOUS

- ❑ Firstly, you came here without being wanted.
- ❑ Secondly, you charged me a fee to tell me something I already knew.
- ❑ Thirdly, you don't understand anything about my business...."
- ❑ And then... finally,
- ❑ "Now, can I have my *'dog'* back?"



OUTLINE

1. Introduction
2. Mandate & Responsibilities OAG
3. Mandate & Responsibilities IAGG
4. Obvious difference
5. Impact of the difference
6. Inherent difference
7. Other differences
8. Bridging the difference
9. Benefits in bridging the difference
10. Way Forward
11. Formalizing of Relationship
12. Conclusion

INTRODUCTION

- ❑ Public Sector auditing is a cornerstone of public sector good governance.
- ❑ OAG provides external audit function, while the IAGG Division of the MOF carries out the internal audit function
- ❑ Their roles are different in an organization, including the public sector, however they complement each other.
- ❑ Public sector can benefit if the two roles are managed well to bring the best within government agencies.

MANDATE - OAG

- ❑ OAG is mandated in the State Services Decree No. 6 of 2009/ section 152 of Fiji's 2013 Constitution, the Audit Act, the Financial Management Act 2004

- ❑ Section 152 states that:
 - ❑ (1) At least once in every year, the Auditor-General shall inspect, audit and report to Parliament on—
 - (a) the public accounts of the State;
 - (b) the control of public money and public property of the State; and
 - (c) all transactions with or concerning the public money or public property of the State.

 - ❑ (2) In the report, the Auditor-General must state whether, in his or her opinion—
 - (a) transactions with or concerning the public money or public property of the State have been authorized by or pursuant to this Constitution or any written law; and
 - (b) expenditure has been applied to the purpose for which it was authorized.

OAG RESPONSIBILITIES

- OAG is required to undertake:
 - a) Compliance,
 - b) Financial; and
 - c) Performance auditing services to all public sector entities.

- In the absence of a Parliament, the results of these audits are reported to the Cabinet with necessary assurance that:
 - a) All transactions concerning State money or property have been properly authorized conforming with any written law,
 - b) Expenditure has been applied to the purpose for which it was approved,
 - c) Entities audited are achieving their objectives effectively and doing so economically in compliance with all relevant laws; and
 - d) That their operations or activities are being performed effectively, economically and efficiently.

MANDATE - IAGG

- ❑ The Permanent Secretary for Finance must authorize the conduct of any audit that he/she deems necessary to determine whether-
 - (a) the operations or activities of all Budget Sector Agencies are being performed effectively, economically and efficiently and in compliance with all relevant written laws;
 - (b) the financial affairs of all budget sector agencies is in compliance with all relevant written laws and with due regard to the principles of responsible financial management.

MANDATE - IAGG

- ❑ (2) If considered appropriate the Permanent Secretary for Finance must authorize the conduct of:
 - (a) special investigations into the financial management of any Budget Sector Agency
 - (b) special investigation into the financial management of any State entity on the authority of the line Minister.
 - (c) audit of the accounts of any recipient of government grants to the extent necessary to ensure that any conditions of any grant to it made by the State, have been complied with.

IAGG RESPONSIBILITIES

- ❑ The key responsibilities of the Internal Audit activity is to:
 - a) Independently Assess;
 - b) Evaluate; and
 - c) Provide reasonable assurance on the 3 E's of the internal controls, risk management, and governance processes.
- ❑ The IA reports are submitted to govt. agencies management and follow ups are made on the implementation of recommendations.

OBVIOUS DIFFERENCE

- ❑ The two institutions' *functions and roles* shows that they are independent due to their responsibilities and reporting structure.
- ❑ The ***OAG is an autonomous institution*** and the Auditor General is appointed by His Excellency, the President.
- ❑ The ***IAGG is a Division of the Ministry of Finance*** and the Director IAGG is appointed by the Permanent Secretary for Finance.

IMPACT OF THE DIFFERENCE

- ❑ The National Bank of Fiji corporate collapse in late 1990's and the Agriculture Scam in early 2000 ***questions the roles*** of both the internal auditors and external auditors and they were under the spot light.
- ❑ This was due to:
 - i. Lack of cooperation;
 - ii. Lack of Coordination; and
 - iii. Absence of acknowledgement in appreciating each other's efforts, roles and achievements; and
 - iv. Both were deemed to be working in isolation with not much effective communication.

INHERENT DIFFERENCE

No.	ISSUE	INTERNAL AUDIT	EXTERNAL AUDIT
1	Accountability	i. Report to the Permanent Secretary of Finance	i. Reports to Parliament/Cabinet & PAC
2	RISK	i. Assists the management in risk identification. ii. Evaluates the effectiveness of the risk management system.	i. Performs risk assessments to identify focus areas for audit purpose. ii. Use risk assessment to determine the effectiveness of controls.
3	REPORTING	1. Reports are submitted to the Permanent Secretary. Follow ups on the implementation of recommendations.	i. Expresses an opinion on the financials statements of the agency.
4	ASSURANCE	i. Primarily focuses on assessing whether governance, risk management and control processes provide reasonable assurance.	i. Provide assurance on the Financial Statements.
5	ADVISORY	i. May provide Advisory services/Consulting Services at the management's request. ii. Typical advisory services include analyzing controls built into systems i.e. whether they are adequate or need to be strengthened, identify the processes that need to be improved, etc.	i. Are generally not involved in advisory services

OTHER DIFFERENCES

- ❑ **Culture:** The perspective of the relationship was shaped by the overriding requirement to be, and to be seen as, independent.
- ❑ **Informal Communication:** Although an open-door policy existed between the two institutions, communication and consultation are limited and, in particular, affected cooperation in auditing.
- ❑ **Misperceptions:** One common misperception was that the external audit function could not make use of internal auditors' work. It was always pointed out that the report ***was intended for certain audience only.***
- ❑ **Human Resources:** Internal auditors, recruiting personnel with operational experience where less emphasis was made on their ***educational qualification.*** OAG have been recruiting qualified officers with FIA membership to give credibility to their audit opinion.

QUESTION?

- 1. What is dividing the two institutions, that need to be addressed?*
- 2. What are the practical steps that needs to be undertaken.*
- 3. What solutions can we offer to tackle the challenge that have been identified.*
- 4. Are the differences prevalent to both private and public sector?*

BRIDGING THE DIFFERENCE

- ❑ ***Encouraging a close working relationship***
 - can help detect public sector deficiencies more effectively.
- ❑ **Eliminate communication barriers between the two**
 - ***can significantly impair*** the efficiency and effectiveness of an audit.
 - ***Last year, PSF raised the issue*** and a meeting with both parties was organized to raise PSF's concern about how we should be co-operating and working together, instead of both going their own ways.
 - Consequently, the MOF tries to ensure that the ***two institutions are both invited*** to be part of working groups e.g. IPSAS Taskforce.
- ❑ ***Failure to work hand in hand*** - risk of overlapping audit efforts, duplication of work and wastage of resources.

BENEFITS IN BRIDGING

- ❑ A more effective audit based on a clearer understanding of respective audit roles and requirements;
- ❑ A better informed dialogue between the two functions, which will again lead to effective audit and consequently to more useful advice to management;
- ❑ Better coordinated internal and external audit activity based on joint planning and communication of needs;
- ❑ The opportunity for each party to draw on a wider and more flexible skills base.

WAY FORWARD

- ❑ Ensure that our current financial and audit regulations and frameworks ***provide an environment conducive*** for the ***two institutions to work together***.
- ❑ Eliminate the existing barriers and improve the relationship between both institutions, which requires ***efforts from both sides to foster their relationship, strengthen communication, and eliminate cultural barriers***.
- ❑ Early establishment of Audit Committees for Government agencies, which can be made use of, to strengthen the relationship between the two functions.

FORMALIZING OF RELATIONSHIP

Formalizing the relationship is probably the fundamental step to ***break the barriers*** between the two parties which could be done through:

- Working together*** through some common understanding of certain practices or attitudes may be a starting point; or
- A ***written agreement or memorandum of understanding*** can be put in place, which is aimed at defining and prioritizing areas of useful interaction for both entities;
- The relationship needs to be ***nourished through regular and open communication*** on matters of mutual interest.
- Arrangements could be made to ***routinely exchange reports*** without each party having to wait for a specific request, as long as there are no confidentiality issues

CONCLUSION

- ❑ Audit services have a great impact on how government agencies deliver their services, at the same time ensuring that good governance exists in the public sector.
- ❑ There is still much to be done, thus, ***I encourage all the auditors present here today*** (both internal and external) to set aside the differences and to curve a new way forward in terms of ***putting others first then our own interest*** i.e. the interest of our ***Audit Clients***.
- ❑ Finally, workshops such as the IIA Conference can be a platform to network with colleagues from the private sector and public sector, in order to discuss and map a path way to achieve the objective of ***“Bridging the difference between internal & external auditors in both the public and the private sector”***.

Thank you!

