

EUROSAI-ECIIA COOPERATION

COORDINATION AND COOPERATION BETWEEN SUPREME
AUDIT INSTITUTIONS AND INTERNAL AUDITORS
IN THE PUBLIC SECTOR

IMPLEMENTATION OF INTOSAI GOV 9150 AND IIA 2050

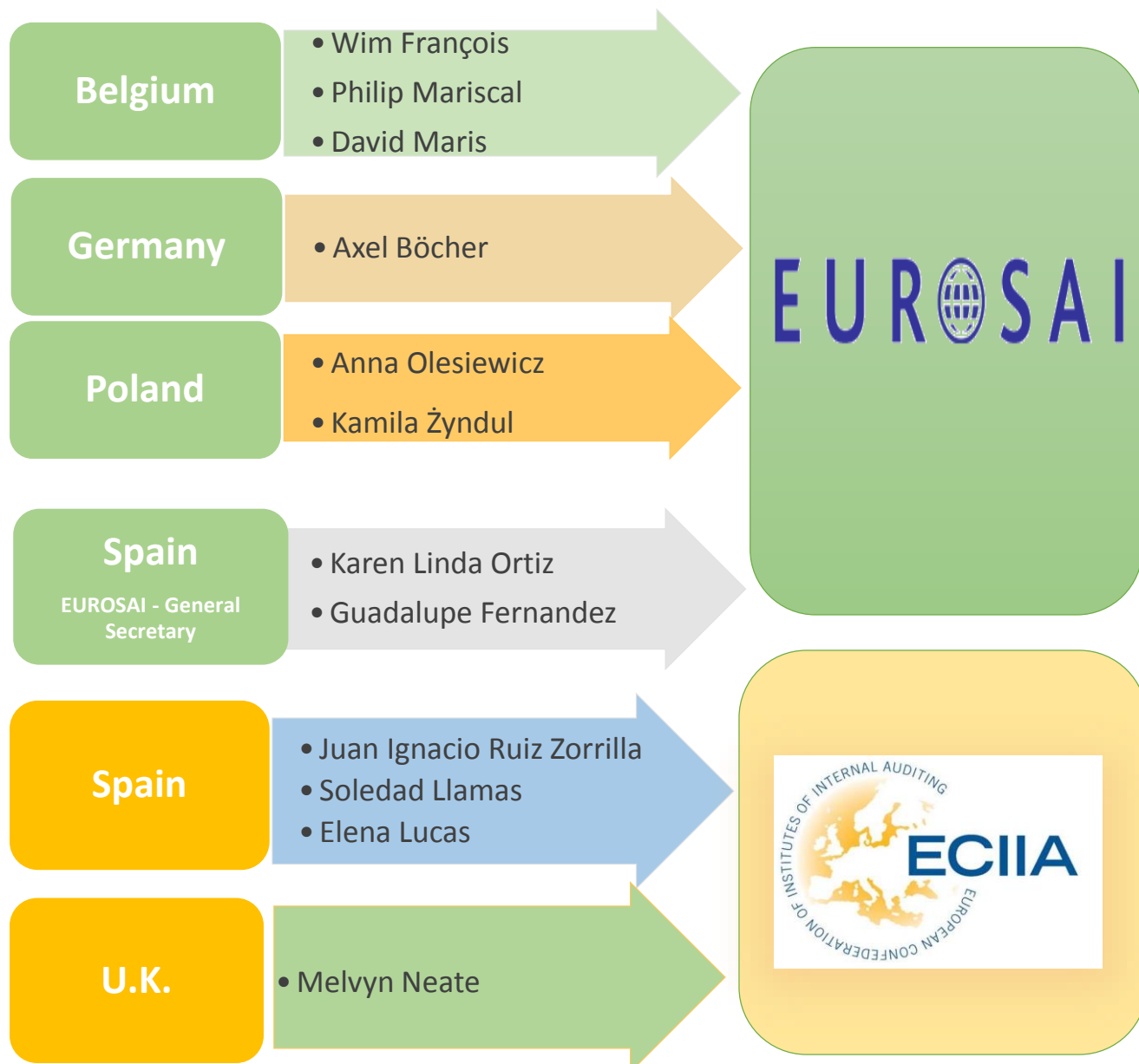
EUROSAI-ECIIA JOINT PAPER (version 05/05/2014)

EUROSAI



**EUROSAI-ECIIA COOPERATION
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**This document was produced by the members of the EUROSAI-
ECIIA editorial committee**



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EUROSAI-ECIIA JOINT PAPER

1. INTRODUCTION

INTOSAI, the International Organization of Supreme Audit Institutions, and The Institute of Internal Auditors (The IIA) have issued international standards and guidance relating to the coordination and cooperation between Supreme Audit Institutions (SAIs) and internal auditors in the public sector: INTOSAI GOV 9150 'Coordination and Cooperation between SAIs and Internal Auditors in the Public Sector' (2010) and IIA Standard 2050 and Practice Advisory 2050-1-2-3 'Coordination' (2013).

EUROSAI, the European Organization of Supreme Audit Institutions, and ECIIA, the European Confederation of Institutes of Internal Auditing, signed a Cooperation Agreement in March 2011. A joint EUROSAI-ECIIA editorial committee was created and tasked with drafting an implementation document to INTOSAI GOV 9150 and IIA 2050 (2012). The editorial committee consisted for EUROSAI of representatives from the SAIs of Belgium (chair), Germany and Poland, operating in the framework of EUROSAI Goal Team 2 and being assisted by the EUROSAI Secretariat; ECIIA was represented by two members of the ECIIA Management Board, Champion and Co-Champion for the EUROSAI partnership, as well as two internal auditors from public and private sector companies in Spain.

A preliminary analysis by the editorial committee showed that international or comparative literature on the relations between SAIs and internal auditors in the public sector is hard to find. Relations between SAIs and internal auditors were found to be essentially determined by national law, the administrative characteristics of national jurisdictions and national auditing practices.

Therefore EUROSAI and ECIIA members of the editorial committee felt the need to survey national relations between SAIs and internal auditors in the public sector, through separate but coordinated questionnaires sent to EUROSAI and ECIIA members respectively (November 2013 and November 2013/ February 2014). The aim of the survey was not to cover exhaustively all EUROSAI and ECIIA national jurisdictions, but rather to compile information and documents considered relevant to be known among the EUROSAI and ECIIA communities. The intention was also to include information and documents relating to the implementation of ISA 610/ ISSAI 1610 "Using the Work of Internal Auditors".

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The SAIs of the following countries completed the EUROSAI questionnaire: Albania, Austria, Belgium, Bosnia and Herzegovina (further cited as Bosnia), Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, France, Georgia, Germany, Hungary, Latvia, Lithuania, Malta, Moldova, Poland, Portugal, Slovakia, Spain, The Former Yugoslav Republic of Macedonia (further cited as the FYR Macedonia), Turkey, Ukraine; as well as the European Court of Auditors (further cited as ECA). The SAI of Norway sent summary information. This makes a total response of 25 completed questionnaires compared to the EUROSAI Membership totaling 50.

ECIIA sent out two questionnaires. The first questionnaire was distributed to all National Institutes that are ECIIA members; it comprised six questions mainly regarding public sector membership, a mandatory internal audit function, the existence of Quality Assurance assessments and Certified Internal Auditors. The second questionnaire was distributed from the National Institutes to the public sector entities identified previously.

The National Institutes from the following countries completed the first ECIIA questionnaire: Austria, Belgium, Bosnia and Herzegovina (further cited as Bosnia), Bulgaria, Cyprus, Denmark, Estonia, France, Germany, Italy, Luxembourg, Montenegro, Norway, Poland, Portugal, Serbia, Spain, Sweden, Turkey, UK and Ireland. This makes a total response of 20 questionnaires compared to the ECIIA European Membership totaling 32. The second ECIIA questionnaire was completed by 42 public sector entities from the following countries: Austria, Germany, Norway, Portugal, Serbia, Spain.

The analysis below tries to mirror tendencies among the jurisdictions that responded to the questionnaires. This is done based on the assumption that respondents elaborate on issues they hold important. The analysis does not place emphasis on the numeric evaluation of the responses, neither has the soundness of the responses been tested by the editorial committee. EUROSAI and ECIIA are responsible for their respective survey results.

This document should be considered and treated as an incomplete and non-exhaustive intermediate product, which hopefully can be further elaborated in the years to come.

With this joint paper, the parties also have the ambition to facilitate the implementation of the reviewed Cooperation Agreement between EUROSAI and ECIIA, to be signed at the IX EUROSAI Congress (The Hague, June 2014).

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2. OVERVIEW

The existence of an internal audit function in the public sector and its degree of development varies widely among and within jurisdictions. Public sector actors have multiple and evolving roles and forms. All-over Europe legislators, governments and administrations are still in the process of shaping and modeling the internal audit function within their specific settings. This explains already in itself why the relations between SAIs and internal auditors are so different across and within jurisdictions. Where there are audit committees in the jurisdictions that returned the EUROSAI questionnaire, they seldom play a role in the contacts between SAIs and internal auditors. However ECIIA believes that audit committees are a vital component of good corporate governance and have a major part to play in ensuring that benefits from coordination/cooperation are fully achieved.

There is legislation concerning coordination/cooperation between the SAI and public sector internal auditors in half of the jurisdictions, and a formal agreement or protocol between the two parties (mostly at a centralized level) – in a third of the jurisdictions. Only about half of the SAIs report externally on the implementation of this legislation, agreement or protocol.

A very large majority of SAIs state using international standards or international references regarding coordination/cooperation. Most of them refer in general to the ISSAIs and INTOSAI GOVs or more specifically ISSAI 1610/ ISA 610, INTOSAI GOV 9140 and INTOSAI GOV 9150. Only a minority have explicit, written SAI internal rules, such as auditing manuals, standards, guidance, procedures or checklists, regarding coordination/cooperation.

The vast majority of internal audit functions operate in accordance with the International Professional Practices Framework (IPPF).

The wording “informal” is often used to describe the way coordination/cooperation between SAIs and internal auditors is arranged. It obviously is more difficult to assess an informal arrangement and it might also be difficult to ensure the quality of its implementation.

EUROSAI and ECIIA both recognize that there are significant benefits to be achieved from greater coordination/cooperation. The EUROSAI survey specifically identified as most common benefits: promoting good governance by exchange of ideas and knowledge; more effective and efficient audits based on a clearer understanding of respective audit roles with better coordinated internal and external audit activity resulting from coordinated planning and communication; refined audit scope for SAIs and internal auditors. On the other hand, almost half of the responding SAIs state they experience risks or see potential risks from coordination/cooperation.

Modes of coordination/cooperation to be found in a considerable majority of jurisdictions, according to SAIs, concern the communication of audit reports to each

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other (including management letters), regular meetings between SAIs and internal auditors and the use of certain aspects of each other's work to determine the nature, timing and extent of audit procedures to be performed. Areas of coordination/cooperation addressed by a majority of SAIs are the following: evaluating the audited entity's internal control framework and risk management, evaluating the entity's compliance with laws and regulations, and documenting the entity's systems and operational processes.

Only a minority of jurisdictions have explicit rules (including legislation) specifically regarding confidentiality in coordination/cooperation.

The evaluation of the responses casts a spotlight on the essential and to some extent unsolved and contentious issue of the status of internal audit in the relationship to the SAI. Internal audit has a kind of double role. On the one hand, it is a kind of close relative of the SAI, working in the field of audit too. On the other hand, it is part of the audited entity, thereby subject to the SAI's assessment and criticism.

The relations between SAIs and internal auditors in the public sector, from an international or comparative perspective, are to some extent "terra incognita". There obviously is a need to map more systematically and in more detail what exists and what jurisdictions can learn from each other, in order for the parties involved – including external stakeholders – to realize the full potential of coordination and cooperation within their respective national frameworks.

In the coming years, EUROSAI and ECIIA have the potential to play a role in clarifying some basic concepts that are important in the implementation of international standards and guidance, and national legislation and rules, as well as in assisting to formalize arrangements between SAIs and internal auditors, always fully taking into account the specific national legal, administrative and audit practice context of the jurisdictions. EUROSAI and ECIIA could also contribute to the process of the review of INTOSAI and The IIA standards and guidance concerning the relations between SAIs and internal auditors in the public sector.

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A. EUROSAI SURVEY RESULTS

A.1. Existence of public sector internal auditors and of coordination and cooperation in jurisdictions

This chapter briefly situates the audit universe of Supreme Audit Institutions, elaborates on the existence of public sector internal auditors and audit committees in national jurisdictions, and gives an overview on the existence of coordination/cooperation in jurisdictions.

A.1.1. Audit universe of SAIs

The audit universe of the SAIs that responded to the EUROSAI questionnaire is diverse. Except for the national/federal level of government (ministries, agencies, public enterprises), over which they all have external audit competence, some SAIs also audit regions/ federated states and/or their subordinated bodies (Austria, Belgium, Croatia, Georgia, Hungary, Portugal, Spain), provinces (Belgium, Croatia, Cyprus, Hungary, Poland, Slovakia, Spain), municipalities (Albania, Austria, Bulgaria, Croatia, Cyprus, Georgia, Hungary, Latvia, Lithuania, Malta, Moldova, Poland, Portugal, Slovakia, Spain, the FYR Macedonia, Turkey) as well as other entities.

The audit universe of the ECA consists first and foremost of the European Commission and the other institutions of the European Union. Where management of EU funds is shared, the recipients of funds from the EU budget will become part of the audit universe via the European Commission. Alternatively therefore one can say that some EU Member States' national/federal and regional ministries, agencies, public enterprises are part of the ECA's audit universe, but the ECA's audit right to these entities is not direct but indirect.

A.1.2. Existence of public sector internal auditors and audit committees in jurisdictions

Existence and span of internal audit in the public sector

In all responding jurisdictions there are internal auditors in all or some of the entities audited by the SAIs in a centralized or decentralized setup.

In **Latvia** an internal audit unit shall be established in the institutions and ministries directly subordinate to the Prime Minister (Internal Audit Law,); the Law does not stipulate the establishment of internal audit units within the municipalities. The need for the establishment of an internal audit unit in the institutions not referred or directly subordinate to the Prime Minister shall be coordinated with the Ministry of Finance, evaluating the criteria (Internal Audit Law). In **Malta** the internal audit function within Government Ministries and Departments is centralized. Internal audit is carried out by the Internal Audit and Investigations Department (IAID) within the Office of the Prime Minister. However, certain public enterprises have their own internal audit functions.

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Not all SAIs have answered the question what percentage of audited entities have internal audit. SAIs mention percentages less than 20 % (Cyprus, Czech Republic, and Denmark), 50 to 60 % (Belgium, Bosnia, Croatia, Germany), 70 to 80 % (Hungary, Slovakia), 90 to 100 % (Bulgaria, ECA, France state administration and social security, Georgia ministries, Lithuania, Spain).

In **Austria** all ministries, federal states and municipalities have internal audit and about 50 % of the agencies and public enterprises, although more than 90 % of funds are under control of internal audit. In **Latvia**, according to the informative report of the Ministry of Finance on the internal audit activities of the ministries and institutions (2012), there were 29 internal audit units in the public sector, of which 13 in ministries, 10 in subordinate institutions and 6 in other institutions. Also a number of local municipalities have established their internal audit units. For **Malta** the question cannot be answered as internal audit within central government is a centralized function. Most individual Ministries/Departments therefore do not have their own internal audit unit. On the other hand, certain public sector entities have internal audit units within the same organization. For **Poland** it is difficult to estimate due to the wide range of the audit universe: for example, on the national level in ministries it is 100%, in case of provinces alike, while in agencies and municipalities, the obligation of having internal audit services depends on the amount of their annual budget.

Certification

Only a few of the SAIs that responded state that it is mandatory for internal audit in the public sector to have quality assessment certification (Belgium Federal State, Bulgaria, Czech Republic, Turkey) and/or for internal auditors in the public sector to have CIA (Certified Internal Auditor®, The IIA) certification (Albania, Croatia, the FYR Macedonia).

In **Latvia** it is mandatory since 2013 that the duties of the head of an internal audit unit in the public sector are performed by a person who has obtained a national internal auditor's certificate in the public administration (Internal Audit Law). In **Poland** CIA is one of the alternative requirements, others being CGAP, CISA, CCSA, ACCA, CFE, CFSA, CFA or national designations.

Setup of contacts

A large number of responding SAIs state that they have contacts with all public sector internal auditors (Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, France, Latvia, Lithuania, Moldova, Slovakia, Spain, the FYR Macedonia, Turkey) or with some of them (Austria, Belgium, ECA, Georgia, Germany, Hungary, Malta, Poland, Portugal). These contacts are mostly organized or structured in some way (Austria, Belgium, Croatia, Czech Republic, Denmark, ECA, France, Hungary, Latvia, Malta, Moldova, Portugal, Slovakia, Spain, the FYR Macedonia, Turkey). The setup of contacts is rarely different in their aim, depending on the level of government and/or the type of entity.

In **Austria** cooperation between the SAI and internal auditors is very much established. When an audit is performed, the internal revision is contacted, their audit reports are viewed and outcomes of these reports are taken into consideration for the SAI's report. The SAI's auditors participate in regular meetings and exchanges of information and experience organized by the internal revisions. In **Belgium**, at the federal state level, there is no formal coordination/cooperation between the SAI and internal audit services, but they are contacted informally during monitoring and auditing activities

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of the SAI. On the regional level, there are organized or structured contacts with Audit Flanders, formerly Internal Audit of the Flemish Administration (IAVA), and with internal audit of the big Flemish agencies (Flemish Government decree of 7 September 2012 concerning control and single audit). In the public services of Wallonia, the SAI is invited as observer to the meeting of the region's audit committee; for the French Community there is an annual meeting between the SAI and internal audit. In **Denmark** all contacts setups are based on a former audit standard which over time has evolved and been adapted to the newest ISSAIs. The setups are not generalized but very similar in their structure; they have been adapted to the various settings in the different entities and governments. In **Germany** decisions about the nature and extent of contacts between the SAI and internal audit services are made by the SAI's relevant audit unit. The SAI of **Latvia** states that cooperation between the SAI and internal auditors shall be improved in a way that the communication would be based on partnership. Also, in order to ensure complete assurance on the internal control system's functionality of the state, the SAI of Latvia points out the importance of further improvement of the existing partnerships with internal auditors of the public sector. The SAI of **Malta** mainly interacts with the Internal Audit and Investigations Department (IAID) as deemed necessary. The SAI may hold meetings with senior representatives from IAID to discuss relevant matters and the proposed yearly audit work programme. The purpose of these meetings is to enhance cooperation between both institutions and avoid unnecessary overlap of audit effort. The SAI may also discuss with IAID audits carried out by the latter that would be of relevance to the SAI during the audit fieldwork. The SAI of Malta mainly interacts with IAID when auditing Central Government Ministries and Departments. In rare instances the SAI interacts with internal auditors of public enterprises when carrying out audits of such enterprises. However, although the contacts are different, the aim is the same, namely to determine whether to rely on the work of internal auditors. As a rule, the SAI of **Poland** has contacts with internal auditors on a daily basis during its audit tasks. There is no formal and structured way to set up contacts between the SAI and internal auditors. However, external auditing of the internal audit function is one of the statutory tasks of the SAI of Poland. So contacts are set up during its on-going audit activity. Additionally, representatives of the SAI regularly participate as speakers in various national meetings and conferences for internal auditors. As for the **ECA**, contacts with the Commission's Internal Audit Service, i.e. at the European Commission overall level, are regular. Contacts with the Internal Audit Capabilities of the high spending Directorates-General are at least annual. Not all internal audit capabilities are visited as some are located in Directorates-General that are regarded as low risk. Most of these are visited on a rotation basis. A summary of all reports is provided and the full reports are requested when assessed as necessary for the risk analysis.

Audit committees

In a majority of the jurisdictions there are audit committees in all or some of the entities audited by the SAI (Austria, Belgium, Bosnia, Croatia, Cyprus, ECA, France, Hungary, Latvia, Malta, Poland, Portugal, Slovakia, Spain), but only in a few countries they play a role in the contacts between the SAI and internal auditors (Austria, Belgium, Bosnia, Cyprus, Georgia, Slovakia).

In **Austria** an audit committee has to be established due to the Austrian Company Law, in case the company emits either shares or other securities on a regulated market (publicly traded companies) or is a very large company. There are audit committees of the supervisory board in some public sector companies like the Austrian Post (Post AG) and Vienna Airport (Flughafen Wien AG). In **Belgium** there is an audit committee of the federal administration reporting directly to the federal government. In the Flemish Community of Belgium there is a central audit committee and audit committees in six important agencies, and there are audit committees in the public services of the Walloon Region and the French Community of Belgium. The federal audit committee does not play any role in the contacts between the SAI and IAs. The audit committee is only informed about the audits planned and conducted by the SAI and sends in return its annual publications about internal audit services. In

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Flanders there are sometimes contacts between the SAI and the audit committee, but no structural contacts, only occasional contacts. In Wallonia the audit committee invites the SAI to attend its meeting. In most of the bodies audited by the SAI of **Germany** there are no audit committees or similar bodies. Exceptions can be found where e.g. audited entities are subject to other legal obligations, one case being financial market stabilization. In **France** there are audit committees in ministries, some agencies and public enterprises. In **Georgia** the internal audit function in the public sector is relatively new and there are no audit committees in public entities. However, issues related to independence of internal audit units as well as quality related issues are supervised by the Central Harmonization Unit, under the Ministry of Finance. The Central Harmonization Unit is facilitating the information exchange between the SAI and the IA units. In **Latvia** there is an Internal Audit Council (Internal Audit Law). The objective of the Internal Audit Council is to promote the improvement of the quality of internal audit, as well as the introduction and development of the internal audit policy and methods in ministries and institutions. In accordance with the Internal Audit Council's policy some ministries have established audit committees. In the **FYR Macedonia** the Ministry of Finance established an Audit Committee as consultative body regarding internal audit issues. In **Malta** the Internal Audit and Investigations Department (IAID) reports to the Internal Audit and Investigations Board which is the equivalent of an audit committee for central government Ministries and Departments. In **Poland** there are audit committees on the level of ministries; public enterprises may also have their own audit committees. In **Portugal** there are audit committees in all state owned companies of significant dimension. In **Slovakia** there is an audit committee on the level of the Ministry of Finance. It plays a role in the contacts between the SAI and internal auditors through common meetings, encouraging contact and cooperation, participation in training events, etc. In **Spain** there are audit committees in some publicly owned enterprises. As for the **European Union** the Audit Progress Committee is established at the highest level, i.e. the European Commission level.

A.1.3. Existence of coordination and cooperation in jurisdictions

Almost all SAIs state that there is formal or informal coordination or cooperation with internal auditors in the public sector.

If there is no coordination or cooperation, the main obstacles are legal (Moldova), internal audit not complying with The IIA standards (Georgia, Poland, Ukraine) or other (Poland). In the absence of coordination or cooperation, some SAIs evaluate whether internal audit was carried out with due professional care (Bosnia, Czech Republic, Georgia, Moldova, Poland, Slovakia, the FYR Macedonia, Ukraine) and/or consider the effect of any constraints or restrictions placed on the internal audit function (Bosnia, Georgia, Germany, Moldova, Slovakia, the FYR Macedonia). Some of these SAIs use checklists based on IIA standards (Czech Republic, Georgia, Poland, the FYR Macedonia), internal checklists (Germany), questionnaires (Moldova), internal methodology based on ISSAIs (Slovakia) to assess internal audit.

In **Bosnia** improvement of the overall system of financial management and control in public administration is based on three pillars: Financial Management and Control System, Internal Audit, Central Harmonization Unit (PIFC). The introduction of internal audit in the public sector is currently at the implementation stage. Establishment of an efficient internal audit system in accordance with the needs of public sector institutions is the responsibility of the Coordination Board of the Central Harmonization Unit. Since the establishment of the coordination and cooperation with internal audit is in its inception stage, there are still no agreements or protocols on this cooperation, but the SAI believes this coordination will come into place once the CHU ensures prerequisites for an efficient work of internal audit in the public sector. In **Germany**, apart from a few exceptions,

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internal audit services were only set up in federal departments and agencies from the end of the 1990s. Since then, relations between the SAI and internal audit services focused on establishing of such services and on capacity building issues. There is no general policy of or obligation for the SAI to evaluate whether internal audit was carried out with due professional care. Nonetheless the relevant audit units are free to include audits on this topic in their annual audit plans. The SAI has framed its basic requirements on the establishment, function, practices and procedures of internal audit. These basic requirements can be used as a checklist. In **Poland** a significant number of internal auditors is designated for the internal audit function on the basis of national requirements, so the IIA standards are not obligatory for them. Obstacles to coordination/cooperation in Poland are the specific culture and traditional approach, in which internal and external auditing are two separate systems linked rather informally; conflicts due to the subjection of the internal audit function to external auditing conducted by the SAI; limited influence of the internal audit function on management and decision making processes in the public sector.

When coordination or cooperation exists, in some jurisdictions there are differences based on the level of government or the type of entity (Belgium, Denmark, Malta, Portugal, and Spain).

In the Flemish Community of **Belgium** there is a formal agreement (2009) between the SAI and Internal Audit of the Flemish Administration (IAVA), now Audit Flanders, and legislation since 2011, while there is no formal agreement with IA in certain agencies/ public enterprises and the provinces. At the levels of the public services of Wallonia and the French Community the cooperation between the SAI and internal audit does exist but is informal, no agreement has been signed and there is no legal obligation to establish cooperation between the SAI and internal audit. In **Denmark** there are differences, but the coordination and cooperation is very much alike due to the foundation of the cooperation in a former audit standard. The differences exist due to the adaptation over time, as the need for coordination and cooperation has developed internally in the different areas of government and types of entities. The SAI of **Malta** maintains regular contact with the Internal Audit and Investigations Department (IAID). Given that the statutory financial and compliance audits of public enterprises are carried out by private sector auditors, there are only rare instances of communication with the internal audit function of such entities. In **Portugal** there is cooperation and coordination at central government level, which is prescribed by law. At other levels internal auditors are required to collaborate with the SAI whenever they are asked to do so. In **Spain** there can be some differences depending on the subject and scope of the audit, because of the type of audit report to be produced, the different auditees and the audit scope. For instance, the management of State budgets and the financial position of the state public sector are reported on in an annual report with other requirements than a special report on, for instance, a municipality. In **Turkey** there may be – and there are – differences in the level of coordination and cooperation between the SAI and internal auditors. These differences are by no means due to the level of government or the type of entity per se, but rather due to the contingency of each audit.

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A.2. Basis for coordination and cooperation

In this chapter the basis for coordination and cooperation in national jurisdictions is discussed. This basis can be legislation, formal agreements or protocols, auditing standards and guidance, and/or informal.

A.2.1. Legislation, formal agreement or protocol

Legislative or formal bilateral basis

About half of the SAIs that responded state there is legislation concerning coordination/cooperation between their SAI and internal auditors in the public sector (Albania, Belgium, Bosnia, Bulgaria, Croatia, Denmark, ECA, Latvia, Moldova, Portugal, Spain, the FYR Macedonia, Turkey). Only two respondents mention having legislative restrictions (Belgium Flemish Community, France).

About a third of the responding SAIs coordinate/cooperate with internal auditors on the basis of a formal agreement or protocol (Albania, Belgium Flemish Community, Bulgaria, Denmark, France, Hungary, Lithuania, the FYR Macedonia). A fifth of the respondents state working with internal auditors on the combined basis of legislation and a formal agreement or protocol (Albania, Belgium Flemish Community, Bulgaria, Denmark, the FYR Macedonia). Only two respondents work together solely on the basis of a formal agreement or protocol without legislation or legislative restrictions (Hungary and Lithuania).

In **Denmark** the agreements between the SAI and the government and entities are based on §9 of the Auditor General's Act :“(1) The Auditor General may arrange with the minister concerned that audit tasks according to section 2(1)(i) and (ii) shall be performed in a specified defined cooperation between the Auditor General and an internal audit body. (2) The Auditor General may arrange with the minister concerned or, if the minister does not hold the requisite authority, with the management of the independent administrative entities mentioned to in section 2(1)(iii) and another auditor, cf. section 2(2), that audit tasks shall be performed in a specified defined cooperation between the Auditor General, another auditor and an internal audit body. (3) The Auditor General may arrange with the minister concerned, other partners and the auditors of such other partners that audit tasks according to section 2(1)(iv) shall be performed in a specified defined cooperation between the Auditor General, the auditors of any partners and an internal audit body”. In **Lithuania** the coordination/cooperation is possible at all levels of government through a formal agreement signed among the SAI, the Ministry of Finance, the Lithuanian Chamber of Auditors, The Institute of Internal Auditors and the Association of Comptrollers for Local Authorities in Lithuania.

Of the SAIs stating having legislation or legislative restrictions on coordination/cooperation, only half were involved in drafting the legislation (Albania, Belgium Flemish Community, Croatia, Denmark, Moldova, Portugal, Turkey).

The SAI of **Latvia** states not being directly involved in drafting the legislation but taking part by contributing in discussions, providing comments and formulating recommendations. In **Hungary** the legislation provides the SAI be involved in drafting legislation concerning coordination/cooperation, however no legislation on coordination/cooperation is reported to be in place (Act LXVI on the State Audit Office of Hungary: “The President of the State Audit Office of

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Hungary shall participate in the preparation of legal regulations [...] b) regarding the operational rules of public finances and the internal audit of budgetary institutions [...]).

In a quarter of the responding jurisdictions the legislation or formal agreement/protocol requires an external reporting on coordination/cooperation from the SAI or internal auditors (Belgium Federal State, Denmark, France, Latvia, Moldova, the FYR Macedonia).

Internal auditors' reporting to SAI

In more than half of the jurisdictions where there is legislation on coordination/cooperation, internal auditors are required to report to the SAI (Albania, Belgium Flemish Community, Denmark, ECA, Latvia, Moldova, Portugal, Spain). In the other jurisdictions concerned this is not required by legislation (Bosnia, Bulgaria, Croatia, France, the FYR Macedonia, Turkey).

In **Belgium** the situation is different depending on the level of government. On the federal level internal auditors report to the federal audit committee. For the Flemish Community legislation provides for internal auditors to put their audit results at other auditors' and the SAI's disposal. In **Denmark** reporting by internal audit to the SAI is a part of the formal agreement between the SAI and audited entities. In **Latvia** the specific legislation requiring internal auditors to report to the SAI is part of the Internal Audit Law ("The State Secretary and the head of an institution directly subordinate to the Prime Minister shall ensure accordingly timely submission of the internal audit unit plan, as well as the annual activity report of the ministry and institutions subordinate to the minister or institutions directly subordinate to the Prime Minister to the State Audit Office"; "The Ministry of Finance, shall prepare and submit to the State Audit Office the compiled annual report regarding the activities of internal audit units in ministries and institutions"). In **Spain** internal audit must submit the requested audit reports in the course of special audits. The compulsory submission of annual financial statements is also accompanied by certain internal audit reports defined in the legislation. As for the **ECA**, Article 161 of the Financial Regulation determines its right of access. In addition, the Financial Regulation requires the internal auditor to provide a number of documents to the SAI. As these documents are official documents the ECA will have unlimited access to these documents and underlying working papers.

Although in several jurisdictions there is no specific legislation requiring internal auditors to report to the SAI, this does not mean there is no communication or reporting from the internal auditor towards the SAI. In fact, it is current practice that the law on the SAI stipulates that the SAI has access to all relevant documents of the audited entity, including reports of internal audit.

In **Slovakia**, for example, the law on the SAI provides that internal auditors are obliged to submit to the SAI documents at the request of the SAI.

External reporting on implementation of formal basis

Of the SAIs responding that there are legislation or legislative restrictions, formal agreements or protocols, only about half report externally on the implementation of this legislation, agreement or protocol (Albania, Belgium, Bulgaria, Croatia, France, Latvia, Lithuania, Spain).

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As for **Spain**, if appropriate the SAI audit reports will mention the implementation of coordination with internal audit. Moreover the SAI may produce, send to Parliament and publish documents called “motions”, with general recommendations aimed to improve public management. In **Turkey** there are publications on this matter from SAI officials or staff.

Only a very small number of respondents state that there are publications on this matter from national internal audit organizations or internal auditors (Belgium, Croatia, France), or that there is reporting by audit committees (Belgium, France).

A.2.2. Auditing standards and guidance

International standards and guidance

A very large majority of the responding SAIs state using international standards or international references regarding coordination/cooperation. Most of them refer in general to the ISSAIs and INTOSAI GOVs or more specifically ISSAI 1610/ISA 610 “Using the Work of Internal Auditors”, INTOSAI GOV 9140 “Internal Audit Independence in the Public Sector” and/or INTOSAI GOV 9150 “Coordination and Cooperation between SAIs and Internal Auditors in the Public Sector”.

Some SAIs refer in addition specifically to ISSAI 1260 “Communication with those Charged with governance” (Moldova), ISA 315 “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment” (Latvia) or ISSAI 1620 “Using the Work of an Auditor’s Expert and Management” (Portugal).

Also several responding SAIs of jurisdictions where there is no legislation, legislative restrictions or formal agreement or protocol indicate using international standards or references regarding coordination/cooperation, in the first place INTOSAI GOV 9150 (Austria, Georgia, Malta, Poland, Slovakia) and also ISSAI 1610/ ISA 610 (Malta).

In **Georgia** the SAI and the Central Harmonization Unit/Ministry of Finance have recently started to cooperate based on INTOSAI GOV 9150, with an initial emphasis on staff training and experience sharing.

A vast majority of responding SAIs state they comply with ISSAI 1610/ ISA 610 “Using the Work of Internal Auditors”.

National standards and SAI internal rules

Only a few SAIs state there are national auditing standards regarding coordination/cooperation (Denmark, Moldova, Portugal, Spain).

Less than half of the respondents state they have explicit, written SAI internal rules, such as auditing manuals, standards, guidance, procedures or checklists, regarding coordination/cooperation (Belgium, Denmark, ECA, France, Germany, Latvia, Malta, Moldova, Spain, the FYR Macedonia, Turkey). Two of these SAIs at the same time state not to have legislation, legislative restrictions or formal agreements or protocols

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(Germany, Malta). One of them at the same time states neither to use international standards or international references regarding coordination/cooperation nor to comply with ISSAI 1610/ ISA 610 (Germany).

The SAIs refer to different SAI internal rules regarding coordination/cooperation, for instance: an audit manual/quality standard for audits, which refer to the cooperation with the internal revision, i.e. roles and responsibilities in the audit process, standardized audit preparation, in-field audit, process steps for the audit report, audit across entities (**Austria**); an internal audit checklist of the SAI (**Belgium**); a SAI framework of its basic requirements on the establishment, function, practices and procedures of internal audit, that has been published on the intranet of the Federal Government (**Germany**); chapter “Using the Work of Internal Auditors” from the SAI’s internal Financial Audit Manual (based on the International Standards on Auditing) (**Latvia**); chapter “Utilization of Internal Audits” from the SAI’s Regularity Audit Manual (**Turkey**); chapter “Using the work of others” from the SAI’s Financial and Compliance Audit Manual (**ECA**).

Only two responding SAIs (Belgium and France) refer to SAI reporting of a general nature on the implementation of these standards and/or internal rules.

The SAI of **Belgium** refers to its annual report and management report on the Flemish region. The SAI of **France** refers to its annual report on the certification of the state accounts.

A.2.3. Informal coordination and cooperation

Only a relatively small number of SAIs responded that there is informal coordination/cooperation they had disclosed or reported on externally (Austria, Bosnia, Croatia, Latvia, Malta, Portugal, Slovakia). Three of them are SAIs that stated not having legislation, legislative restrictions or a formal agreement or protocol on coordination/cooperation (Austria, Malta, Slovakia).

The SAI of **Austria** traditionally maintains close and effective contact to the internal audit units and regards the internal revisions as first contact for audits due to their “insider knowledge”. Cooperation between the SAI of **Slovakia** and internal audit is incorporated in the SAI Development Strategy (2007-2012 and 2013-2020).

Several SAIs have reported the existence of publications on this matter from SAI officials or staff (Austria, Croatia, Malta, Spain, Turkey). Two SAIs also reported they have publications on informal coordination/cooperation from national internal audit organizations or internal auditors (Croatia, Spain).

A.2.4. Other reporting or publications

A few respondents state there are reports or publications on coordination/ cooperation from other national public sector bodies, supranational or international entities or the academic or professional community.

The SAI of **Moldova** refers to the Consolidated Annual Report on public internal financial control performed by the Ministry of Finance, Harmonization Division of public internal financial control. The SAI of **Spain** refers to national magazines on external control, on public audit and on state

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internal control. In 2004 the ECA adopted Opinion 2/2004 on the 'single audit' model, which was prepared from the wider perspective of the whole process of internal control and external audit over the EU budget. It set out a number of general principles for internal control systems to operate in accordance with the 'single audit' model and referred to the role of the external auditor, which is not part of the 'single audit' system. In a recent special report (no. 16/2013, December 2013) the ECA takes stock of the Commission's implementation of the 'single audit' model.

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A.3. Benefits and risks of coordination and cooperation

In this chapter, potential benefits and risks of coordination and cooperation between SAIs and internal auditors are discussed. A list of both benefits and risks was given in the questionnaire, and here they are presented from most to least common, in accordance with the respondents' ordering. Also, other examples of benefits and risks are mentioned, based on some SAIs' practice.

A.3.1. Benefits of coordination and cooperation

A very large majority of responding SAIs point out that there is coordination/cooperation between their SAI and internal auditors in the public sector and indicate they have experienced benefits from it.

All of these SAIs have experienced the following benefits:

- An exchange of ideas and knowledge;
- Strengthening their mutual ability to promote good governance and accountability practices, and enhancing management's understanding of the importance of internal control;
- More effective audits based on: promoting a clearer understanding of respective audit roles and requirements; better informed dialogue on the risks facing the organisation leading to a more focused audit and, consequently, more useful recommendations; better understanding by both parties of the results arising from each other's work which may have an impact on their respective future work plans and programmes.

75 to 90 % of these SAIs have experienced the following benefits :

- More efficient audits based on: better coordinated internal and external audit activity resulting from coordinated planning and communication; refined audit scope for SAIs and internal auditors (90 %);
- Reducing the likelihood of unnecessary duplication of audit work (economy) (85%);
- Improving and maximizing audit coverage based on risk assessments and identified significant risks (85%);
- Mutual support on audit recommendations which may enhance the effectiveness of audit services (80%);
- Minimizing disruption to the audited entity (75%).

The SAI of **Latvia** indicates as other benefits: the possibility both to identify common irregularities in the control environment of entities and to make the entity's managers aware in a timely manner of possible improvements in the entity's internal controls; and to evaluate the administration functioning on a broader scale, also beyond the framework of one Ministry. For the SAI of **Turkey**, external audit has had remarkable contributions to the understanding, establishment, management and execution of the internal audit process which is an intrinsic part of the change in national financial governance.

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In **Poland** there is partial cooperation, but due to the limited extent of coordination and cooperation, it is for the SAI difficult to indicate benefits. The reports and results of internal auditors' work are analyzed in the course of the preparation and conduct of external audits, as part of the external auditors' job. But there is a connection between internal audit reporting and the scope of external auditors' work.

Some SAIs explain how they realize and maximize these benefits. Consultation between the SAI and internal auditors in the preparation and planning stages of audit work seems to be important.

The SAI of **Albania** and internal auditors exchange the strategic audit working plan and the annual audit plans. According to the SAI of **Austria** benefits are maximized through direct contact in the preparation of an audit, which contributes to a better preparation for the audit and may also allow shorter in-field audit. In the Flemish Community of **Belgium** the benefits are realized and maximized through consultation between the SAI and internal audit about the results of monitoring and risk analysis, consultation about planning (which audit topics overlap, timing and spread of the topics); participation of the SAI and internal audit to management boards and management committees; organization of and active participation in workshops, information sessions, etc.; systematic exchange of reports and manuals; review by the SAI of internal audit's internal control guide. The SAI of **Croatia** maximizes benefits through continuous strengthening of communication and cooperation with the Ministry of Finance (Central Harmonisation Unit), internal audit units, universities, professional organizations, etc. The SAI of **Latvia** maximizes these benefits firstly while assessing the entity's internal control system to rely as far as possible on the internal control system, thus reducing the amount of audit work of the SAI. Secondly, internal auditing with a risk-based approach obtains an understanding of the entity's activities, as well as information on risk identification and assessment. Last but not least, the involvement of the entity's internal auditors in the implementation of audit recommendations provides the SAI with information on the entity's progress in implementing audit recommendations with less need to repeat audit procedures in order to regain assurance on the implementation. In general this process stimulates establishment of good governance principles in the whole public sector and within each audited entity and the internal auditors serve as the intermediary between the SAI and the management of the audited entity. In **Portugal** the internal control services are subject to a special obligation to collaborate with the SAI, specifically to communicate to the SAI annual and multi-annual business plans and the respective reports of activities, and to send the reports of their actions. The President of the SAI may meet with the national-inspectors and auditors of the public administration in order to promote the exchange of information concerning the respective annual and multi-annual plans of activities and the harmonization of criteria for internal and external control (Organisation and Procedural Law of the Court of Auditors). For the **ECA** benefits are realized by the exchange of planning and audit reports. In a limited number of instances the work of the internal auditor is used as part of the assurance. The internal audit reports are input for ECA risk assessment and analysis. Interviews of internal auditors contribute to a better understanding of the risks examined by the internal auditors and the recommendations made, avoiding duplication of work and/or redirecting ECA audit resources.

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A.3.2. Risks of coordination and cooperation

Almost half of the SAIs that stated having coordination/cooperation point out they have experienced risks, or potential risks (Denmark), from coordination/cooperation. The main risks mentioned in descending order of importance are:

- Possible difference of conclusions or opinions on the subject matter (78 %);
- Use of different professional standards relating to independence or audit (62%);
- Dilution of responsibilities (57%);
- Misinterpretation of conclusions when using each other's work (55%);

Other risks mentioned by SAIs are:

- Possible conflicts of interest (43 %);
- Any compromise of confidentiality, independence, and objectivity (29 %);
- The possibility that potential findings of the other auditor may be prematurely communicated to an external party, before sufficient audit evidence exists to support those findings (12%);
- Not considering constraints or restrictions placed on the other auditor in determining the extent of coordination and cooperation (12%).

In **Germany** there is no legal obligation for federal departments and agencies to set up internal audit services. Therefore, they will do so only if they expect such services to add value. Given that the internal audit function is a novelty in federal departments and agencies, the German SAI deliberately refrained from impairing the internal audit function by bringing it too close to the external audit function. The SAI perceived the risk that internal audit services may be seen as 'auxiliary forces' of the external audit function and thus may lose their added value for the entity in question.

Some responding SAIs explain how they deal with these risks or how (potential) risks are managed. Evaluation of the quality of the work of internal audit by the SAI and/or coordination meetings between the SAI and internal audit seem to be important mechanisms.

For the SAI of **Austria**, audit findings of internal revisions can only be taken into consideration after independent evaluation of the quality of the internal revision's audit work. In any case the external auditor must assess the independence and objectivity as well as the required quality of the internal revision's audit work, before relying on it. In the Flemish Community of **Belgium** there are meetings between directors and senior managers of internal audit (Audit Flanders, before IAVA) and the SAI. During these meetings problems are discussed and solutions are proposed. Risks of coordination and cooperation are managed for instance through coordination of audits. When the SAI and internal audit want to conduct similar audits, they have meetings to try to coordinate the audits. This is work in progress that suffers from trial and error. In the case of the SAI of **Denmark**, the risks are eliminated through coordination and cooperation, as e.g. the conclusions are not misinterpreted. Risks to coordination and cooperation are managed in a two-fold process: first the division of work is agreed before the audit work begins, i.e. the audit plan and objectives are discussed and agreed between the internal and external auditor. Then, during the audit, regular meetings are organized with a view to discussing progress and possible adjustments of the audit plan in order to address issues related to coordination and cooperation. The SAI of **Georgia** for a short period of time was co-chair of the Central Harmonization Unit. This impaired the SAI's perceived objectivity and created conflict of interest. The SAI vacated its position of co-chair at CHU, and confined its participation to

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providing advice on further development of internal controls. In **Latvia** the potential risks of coordination and cooperation between the SAI and internal auditors are being managed by clearly defined procedures, there are meetings between both parties on the planning and final stages of audits, and during these meetings the SAI's audit findings are being discussed. Also, according to the internal Financial Audit Manual of the SAI of Latvia, at the final stage of an audit the entity and its internal auditor is being informed about the audit findings and results that will be represented in the final audit report. Thus the audited entity already during the audit is informed on the audit findings thus facilitating the further agreement of the audit report with the audited entity. When relying on the work of internal auditors, the SAI of **Malta** ensures that the work performed is in accordance with international professional auditing standards. It also receives assurance from internal auditors that the evidence obtained by the latter is reliable. The SAI maintains utmost confidentiality relating to matters discussed during meetings between external and internal auditors. The SAI also fulfils independence requirements during audit assignments notwithstanding the fact that it cooperates with internal auditors. Any constraints on internal audits are discussed during cooperation and coordination meetings. For the SAI of **Spain** any audit work meets potential risks. Nevertheless, in the SAI's experience there are no significant increases in the acceptable risk level. In any case, Spanish legislation contains specific dispositions regarding concrete risk situations and how to deal with them, for example concerning conflict of interest, use of different standards, confidentiality, independence, professional secret. At the **ECA** the risks are dealt with by ensuring that the ECA work always takes priority over internal audit planning, if necessary by duplicating part of the work. The ECA and the Internal Audit Service of the European Commission exchange their work programmes and meet regularly to discuss on issues of common interest, including audit methodologies and difference of opinions. The ECA's website includes wide information on the audit methodology followed when performing its audits.

A.3.3. Global evaluation of coordination and cooperation

Some responding SAIs elaborate on what are, from their point of view, the most interesting and important aspects or needs of coordination/cooperation. The exchange of experiences, a better audit scope and more efficient and effective audits are the aspects that are often mentioned.

For the SAI of **Austria** the most important aspects are the exchange of experiences; a relationship of trust; a common interest in legality and performance audit. Benefits for the SAI as well as the audited entity are more efficient and targeted audits, resulting under certain circumstances in reduced time for audit preparation and lesser burden for the audited entities. In **Belgium**, at the federal level, the SAI is in favour of a cooperation with the internal auditors in order to promote exchanges of experiences and to allow the internal auditors to comply with their legal obligations towards the SAI. Indeed, the SAI must be informed immediately of the work plans of the internal auditors, their findings and recommendations as well as of the methods applied (Act of 22 May 2003 organizing the federal budgeting and accounting). This cooperation is seen as part of the concept of single audit as promoted by the European Court of Auditors, i.e. an integrated internal control and an internal audit function so arranged that external audit can rely on its work. Within the Belgian institutional structure the single audit concept does not merely consist of dividing the audit activities between the SAI and internal auditors. For the SAI of **Bosnia** the efficiency of the use of time and resources is the most important aspect of coordination/cooperation. For the SAI of **Bulgaria** the most interesting and important aspects of coordination/cooperation between the SAI and internal auditors are strengthening their mutual ability to promote good governance and accountability practices and the exchange of ideas and knowledge. The SAI of **Cyprus** mentions more efficient, effective and economical audits as most important. For the SAI of the **Czech Republic** maintaining confidentiality is what is most needed when coordinating/cooperating. For the SAI of **Denmark** one of the most interesting and important aspects of coordination and cooperation is the fact that a strong

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relationship between the internal auditors and the SAI can evolve, thus strengthening the cooperation. Another important aspect is a deeper integration within the audited entities when there are internal auditors. For the SAI of **France** the most important aspects of coordination/cooperation are more efficient audits based on better coordinated internal and external audit activity resulting from coordinated planning and communication and a refined audit scope for SAIs and internal auditors. At this stage, for the SAI of **Georgia** the most important aspect of cooperation with internal audit units would be to speed up the process of obtaining relevant information during the course of audits as well as for continuous monitoring of public entities, to reduce the audit burden for audited entities. In the opinion of the SAI of **Germany**, respect for the differing roles is a key prerequisite for cooperation that will benefit all parties involved. In particular, internal audit services are not to be considered as field offices of the SAI. Neither party should be obliged to provide particular services for the other. On the other hand, the final audit results should be accessible. In addition, periodical consultation should help to avoid misallocating resources and duplication of work such as auditing one and the same matter by both parties. The SAI of **Hungary** points to the improvement of internal auditing, compiling and developing the best methodologies and enhancing the communication between the auditors of the SAI and internal auditors as important aspects. From the point of view of the SAI of **Latvia**, one of the most important aspects of cooperation with internal auditors includes the internal auditors' role in monitoring the implementation of audit recommendations. Use of internal audit's work is one of the ways for the SAI to gain assurance in its audit. First of all it is a method to collect audit evidence beforehand. Secondly it helps to avoid duplication of audit work between the SAI and the entity's internal audit, and should ultimately develop better cooperation between the SAI and internal audit. For the SAI of **Lithuania** the most important aspects are sharing information and joint events. For the SAI of **Malta** the most interesting and important aspects or needs of coordination and cooperation include the avoidance of unnecessary audit overlap and the exchange of professional ideas and knowledge. The SAI of **Portugal** mentions better communication, common understanding and confidence as the most important aspects of coordination/cooperation. For the SAI of **Slovakia** the most important aspects are sharing experience, integrated coverage of potential audit fields and better dealing with audit risks. According to the SAI of **Spain** coordination of both parties' audit programmes is essential to reduce the possibility of duplication and to strengthen control activities focused on risk areas. For the SAI of **Turkey** external audit and internal audit are two mechanisms working hand in hand in supporting effectiveness and accountability in the usage of public resources. Coordination and cooperation between internal audit and external audit helps increasing the effectiveness of both mechanisms. The effectiveness of the parliamentary control depends on external audit, which in turn depends on the establishment and implementation of strong internal audit.

A few SAIs mention what they see as good practices in this field. Meetings between the SAI and internal auditors in the planning and/or final stages of audits are mentioned by several SAIs.

The SAI of **Belgium** mentions Opinion no 2/2004 of the European Court of Auditors on the single audit model. The SAI of **Croatia** indicates as good practices: joint conferences and seminars with the Central Harmonization Unit and internal auditors; regular quarterly meetings with the Central Harmonization Unit; sharing of information and possibility of influence on strengthening and improvement of the system via PIFC Council, etc. The SAI of **Denmark** indicates as an example of good practice the decision of the planned audit scope, where the SAI formally meets with the internal auditors to discuss the scope, thus allowing internal auditors to highlight important audit aspects not yet covered by the SAI. In **Germany** the Federal Ministry of the Interior has issued guidance that deals with the organization, approach and quality of the work of internal audit services in federal departments and agencies. This guidance for the newly established audit services was issued in response to a demand made by the German SAI. The SAI was also consulted repeatedly when this guidance was developed and thus was able to provide major input. This guidance does not discuss coordination and cooperation between the German SAI and internal auditors. For the SAI of **Latvia** good practices include the meetings between the SAI's auditors and the entity's internal auditors in

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the planning and final stages of audits. Also, at least once a year meetings between internal auditors and SAI are being organized during which the annual report from the Ministry of Finance regarding the activities of internal auditors in ministries and institutions is being discussed. During these meetings the SAI also introduces internal auditors to the strategic and annual activities of the SAI. The SAI of **Lithuania** mentions annual meetings for sharing methodological innovations and annual meetings to discuss the audit results as good practices. The SAI of **Malta** reviews the yearly audit programme of IAID to ensure that there is no unnecessary audit overlap, thus minimizing disruption to the auditee and avoiding duplication of audit work. The SAI may also discuss with IAID audits carried out by the latter that would be of relevance to the SAI during audit fieldwork. In **Spain**, as a general rule, the first audit area of any of the SAI's audit programmes is focused on the internal control. The SAI's audit regulations also describe the coordination and communication with internal control as one of the main steps of the audit process.

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A.4. Modes of coordination and cooperation

In this chapter we take a look at the modes used by SAIs to actually practice coordination and cooperation. We also refer to the basis for the various modes.

Most common modes

Modes of coordination/cooperation to be found in a considerable majority of jurisdictions, according to the responding SAIs, concern:

- The communication of audit reports to each other (including management letters) (Belgium, Croatia, Cyprus, Denmark, ECA, France, Latvia, Malta, Moldova, Poland, Portugal, Slovakia, Spain, the FYR Macedonia, Turkey);
- Regular meetings between SAIs and internal auditors (Albania, Austria, Belgium, Croatia, Czech Republic, Denmark, ECA, France, Hungary, Latvia, Lithuania, Malta, Slovakia, Spain, the FYR Macedonia);
- The use of certain aspects of each other's work to determine the nature, timing and extent of audit procedures to be performed (Albania, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, ECA, Germany, Latvia, Lithuania, Malta, Moldova, Poland, Spain, the FYR Macedonia, Turkey).

As far as these three modes are concerned, the bases (legislation, formal agreement or protocol, SAI internal rules, informal) mentioned by the SAIs vary. As for the communication of audit reports, SAIs mention in equal numbers legislation and informal basis, and some kind of formal agreement or protocol is mentioned next often. Regular meetings are mostly based on informal agreements, in the second place some kind of formal agreement is mentioned. As for the use of certain aspects of each other's work, informal agreements are mentioned slightly more often than internal rules/ audit manuals.

In **Austria**, meetings can be held during audits between the SAI and internal auditors; SAI auditors and representatives of internal revision of the audited entities also meet for exchanges of experience. The SAI's audit reports are tabled to the audited entity and are publically available. The reports of the internal revision are internal, they are requested by the SAI in case of an audit. The SAI of **Germany** holds that internal audit should have access to all its audit reports on the specific administrative entity, but whether this really happens depends on the decisions of the heads of these entities. At the same time, there is no automatism for reports of internal audit to be communicated to the specific audit unit of the SAI. All reports of the SAI of **Malta** are public and therefore may be viewed by the Internal Audit and Investigations Department (IAID). The SAI also yearly requests copy of audit reports from IAID. Management letters are not usually exchanged. The SAI determines the professional standard of the work of IAID when deciding whether to place reliance on such audit work. In **Poland** the SAI has a broad mandate to audit different areas of the public sector activity, including auditing entities' internal audit. The SAI uses reports prepared by internal auditors, but they are only one source of information; ultimately the SAI is not bound by their findings nor assessments. When appropriate, the SAI is willing to cooperate with internal audit, especially with a view to improve the internal control, risk management and governance processes. In **Slovakia** there is an obligation for internal audit, set in the law on the SAI, to submit documents requested by the SAI. In **Turkey** the communication of audit reports is a one-way-process according to the legislation which states that external auditors, in the implementation of audits, if deemed necessary, may utilize internal audit reports.

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Modes used less often

Modes of coordination/cooperation that seem to be of interest or concern to considerably fewer, i.e. a minority of, responding SAIs are:

- Developing methodologies (Albania, Austria, Belgium Flemish Community, Czech Republic, ECA, the FYR Macedonia);
- Collaborating on certain audit procedures, such as collecting audit evidence or testing data (Albania, Czech Republic, Denmark, France, Lithuania, Spain, the FYR Macedonia);
- The secondment or lending of staff (Czech Republic, Denmark, France);
- Granting access to audit documentation (Albania, Belgium Flemish Community, Bulgaria, Croatia, Cyprus, ECA, Latvia, Lithuania, Portugal, the FYR Macedonia).

There is no basis clearly dominating for those few SAIs that, nonetheless, use these modes.

The SAI of **France** collaborates on certain audit procedures in the framework of the attestation audit of the state and social security financial statements. The SAI of **Germany** can enforce access to audit documents of internal audit ("blanket clause", § 95 of Federal Budget Code). In the **FYR Macedonia** a protocol of cooperation between the SAI and the Ministry of Finance was signed (2006) in relation to exchanging information in the area of finance management and control, internal audit in the public sector and state audit.

As for the other modes of coordination/cooperation there are no clear majorities among responding SAIs. There is a tendency in favor of:

- The communication of audit planning/ audit strategy (Albania, Belgium, Bulgaria, Denmark, ECA, France, Hungary, Latvia, Malta, Moldova, Slovakia, Spain, Ukraine);
- Organizing common training programs and courses and sharing training material (Albania, Austria, Belgium Flemish Community, Croatia, Czech Republic, Denmark, France, Hungary, Lithuania, Malta, Poland, Slovakia, Spain, the FYR Macedonia);
- Arrangements for the sharing of information (including consultation procedures) (Albania, Belgium, Bulgaria, Croatia, Denmark, ECA, France, Hungary, Latvia, Portugal, Slovakia, Turkey, the FYR Macedonia).

A mode that is proportionally less favored is:

- Sharing training material, methodologies and audit work programs (Albania, Austria, Belgium Flemish Community, Croatia, Czech Republic, Denmark, ECA, France, Hungary, Latvia, Lithuania, Slovakia, the FYR Macedonia).

The SAI of **Austria** states that communication with the internal revision usually is started on the occasion of the elaboration of the audit concept. There are meetings organized by The IIA, where representatives of the SAI participate in; on the other hand, the SAI also has a series of knowledge sharing seminars on matters of public management and management reform, where representatives

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from internal revision are invited to. The SAI of **France** shares training material, methodologies etc. on the basis of the SAI's group membership of The IIA chapter. In **Latvia** the Auditor General, a member of the Council of the State Audit Office, a head of a sector of an audit department and employees authorized by the Auditor General, if necessary in order to perform the task of the State Audit Office, may without hindrance visit institutions and undertakings (companies) irrespective of their subordination and ownership and request all necessary information (State Audit Office Law). In **Malta** the SAI is notified of IAID planned audit work programme for the subsequent year. IAID staff members attend training courses organized by the SAI and vice versa. In **Moldova** the internal auditor presents the annual plan of internal audit activity to the SAI (Law 229 of 23/09/2010 on Public Internal Financial Control). In **Slovakia** internal audit informs the SAI of their audit plans.

Other modes of coordination/cooperation are used by only a few SAIs.

In order to enhance cooperation, the SAI of **Latvia** works on the following modes of cooperation: partnership, i.e. discussions with internal auditors on the risks and priorities of a particular industry, reliance on the internal auditor's work, exchange of experience and knowledge with internal auditors; continuous communication, exchange of information regarding potential risks, audit scope, implementation of audit recommendations; exchange of information in a particular audit, better coordination of the SAI's audits; cooperation with the Public Expenditure and Audit Committee, one of the Parliament's standing committees. Moreover the SAI of Latvia is currently intending to conclude a cooperation agreement with the Ministry of Finance on the development of cooperation with internal auditors in the following areas: coordination process of audits and annual plans; exchange of information on audit findings; cooperation in the field of training and assessment of internal control systems; monitoring of the implementation of audit recommendations. In **Lithuania** a special website has been created for coordination and cooperation between the SAI and internal auditors in the public sector.

Conclusion

Overall the responding SAIs seem to prefer 'soft' modes of coordination/cooperation above 'hard' modes and informal bases above any kind of formal arrangement. It is not clear whether the SAIs do so because they do not see any added value in formalizing the arrangement or because they object in principle to a binding coordination/cooperation on a par with internal audit.

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A.5. Areas of coordination and cooperation

This chapter highlights the areas in which the SAIs coordinate and cooperate with internal audit in the public sector.

There are a few responding SAIs that engage in coordination/cooperation in all areas listed in INTOSAI GOV 9150 (Spain, the FYR Macedonia). On the other hand some SAIs do not engage in any of those (Georgia, Germany and Portugal).

The areas of coordination/cooperation addressed by a majority of SAIs are:

- Evaluating the audit entity's internal control framework (Albania, Austria, Belgium Flemish Community, Croatia, Cyprus, Czech Republic, Denmark, ECA, France, Hungary, Latvia, Malta, Moldova, Slovakia, Spain, the FYR Macedonia, Turkey and Ukraine);
- Evaluating the audit entity's financial statements' compliance with laws and regulations (Austria, Croatia, Cyprus, Czech Republic, Denmark, ECA, France, Hungary, Malta, Moldova, Poland, Slovakia, Spain, the FYR Macedonia and Turkey);
- Evaluating the audit entity's risk management (Albania, Austria, Belgium Flemish Community, Croatia, Cyprus, Denmark, ECA, France, Moldova, Poland, Slovakia, Spain, the FYR Macedonia and Turkey);
- Documenting the audit entity's systems and operational processes (Albania, Belgium Flemish Community, Croatia, Cyprus, Czech Republic, Denmark, ECA, France, Moldova, Poland, Slovakia, Spain, the FYR Macedonia and Turkey).

Areas of coordination/cooperation a majority of SAIs does not engage in are:

- Evaluating the audit entity's performance indicators and performance studies;
- Developing audit procedures;
- Performing audit procedures (e.g. audit of multi-located entities);
- Investigating fraud and corruption allegations.

Conclusion

The majority of SAIs seems to prefer areas of coordination and cooperation with a focus on assessing the audit(ed) entities. This may correspond with the impression that SAIs often regard internal audit rather as a junior partner than as partner at eye level. Areas of coordination/cooperation that require more mutual and binding coordination/cooperation are addressed less often.

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A.6. Confidentiality relating to coordination and cooperation

This chapter finally looks into the way SAIs handle confidentiality issues when engaging in coordination and cooperation.

Only a minority of responding SAIs has explicit rules (including legislation) regarding confidentiality relating to coordination/cooperation (Austria, Belgium Flemish Community, Croatia, Denmark, ECA, France, Latvia, Moldova, Portugal, Spain, Turkey).

No SAI relies on an informal agreement. A few SAIs point to legislation as a guarantee for confidentiality; in most cases it refers to some kind of general provision applicable to all audit engagements and not to a provision relating specifically to coordination/cooperation with internal auditors.

Many guarantees seem to be one-sided. Internal rules and codes of ethics, cited in half of the cases, may be binding for the specific SAI but not for internal audit. Mutual assurance of confidentiality does not seem to be of greater importance, the exception being Denmark.

In **Denmark** the confidentiality issues are formally dealt with in the agreement § 9 of the Auditor General's Act between the SAI and the entity/responsible minister, which will be signed by the parties involved. Via this agreement the internal audit and the SAI's mutual understanding of the need of confidentiality is established and this understanding is maintained by good coordination and cooperation.

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B. ECIIA SURVEY: NATIONAL INSTITUTES

B.1. Introduction

The survey was submitted in November 2013 to the National Institutes of 34 countries across Europe and North Africa. In total, 20 National Institutes responded to the survey showing a response rate of 59%.

The list of respondent countries is made up by Austria, Belgium, Bosnia, Bulgaria, Cyprus, Denmark, Estonia, France, Germany, Italy, Luxembourg, Montenegro, Norway, Poland, Portugal, Serbia, Spain, Sweden, Turkey, and UK and Ireland.

Austria, Belgium, Bosnia, Bulgaria, Cyprus, Denmark, France, Germany, Poland, Portugal, Spain and Turkey are countries that have also responded to the survey performed by EUROSAI.

The specific questions raised in the questionnaire were the following:

- How many public sector entities are registered within your institute?
- What percentage of your members are from public sector entities?
- Is it mandatory for the public sector to have an internal audit function?
- How many countries have public entities with QA, “Quality Assurance”?
- Is it mandatory for internal auditors in the public sector to have CIA or equivalent certification?
- How many public entities have a person with CIA?

The results obtained to the above stated topics are presented on a more detailed level in the following sections.

B.2. Public entities registered with National Institutes

The first question is about how many public entities are registered in the Institute of Internal Auditors of each country.

It is very important to remark that the question is about entities, not individuals. And it is possible that some public entities with internal audit function are not registered in their institute (in this case these entities did not participate in the results).

In total, 1,716 public entities in the polled countries are registered as members of National Institutes.

On average, and according to the response provided by the 20 participant countries, 86 public entities are registered as members of National Institutes.

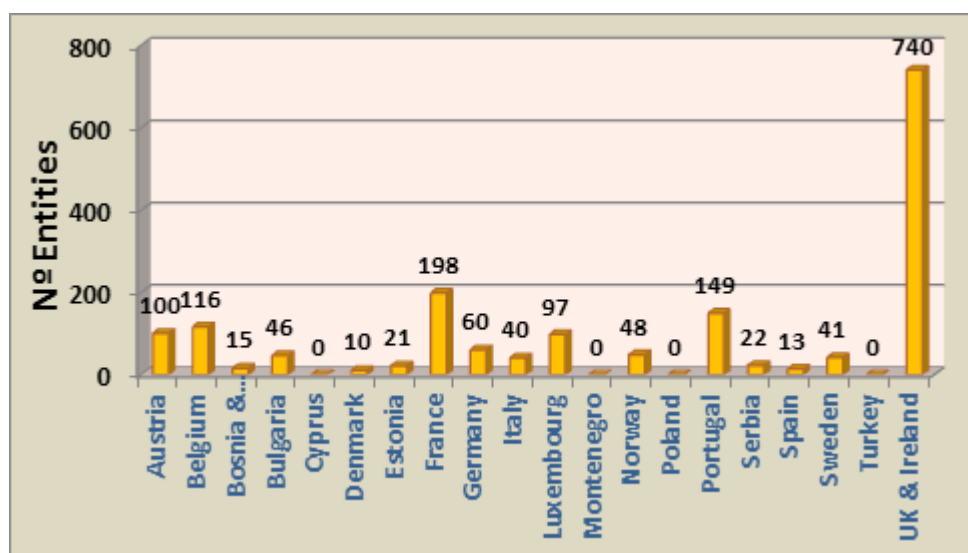
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In relation to public entity membership to National Institutes, 30% of the polled countries exceed the average result, with UK and Ireland leading the ranking with 740 public entities registered as members of National Institutes, well above other countries such as France (198), Portugal (149), Belgium (116), Austria (100) and Luxembourg (97) showing also a significant number of public entities registered as National Institute members.

70% of the polled countries show results below the above stated average, including countries such as Germany (60), Norway (48), Bulgaria (46), Sweden (41), Italy (40), Serbia (22), Estonia (21), Bosnia (15), Spain (13) and Denmark (10).

The countries reporting no public entities registered as National Institute members include Cyprus, Montenegro, Poland and Turkey.



B.3. Public sector membership in National Institutes

This question connects with the first one as there might be cases where the public entity is not a member of the National Institute itself, but internal auditors working in such public entity are.

Based on the above statement, the conducted survey identified the proportion of the National Institute members that correspond to public sector, either public entities or individuals (internal auditors working for public entities).

On average, the participation of public sector in the overall National Institute membership is 23%.

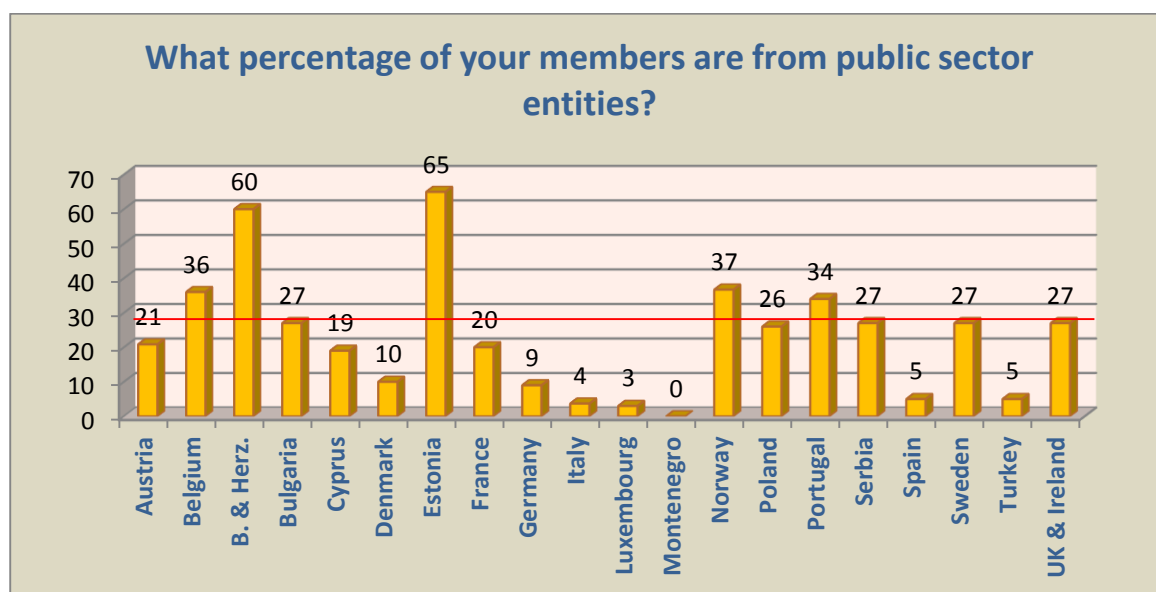
The countries, where this participation in National Institute membership is higher, are Estonia (65%) and Bosnia (60%).

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Other countries showing public sector membership levels above the average include Norway (37%), Belgium (36%), Portugal (34%) and UK and Ireland, Sweden, Serbia, Bulgaria (27%) and Poland (26%), whereas countries such as Austria (21%), France (20%) and Cyprus (19%) present membership percentages close to the average.

The countries with the lowest percentage of National Institute membership include Denmark (10%), Germany (9%), Spain (5%), Turkey (5%), Italy (4%), Luxembourg (3%) and Montenegro (0%),



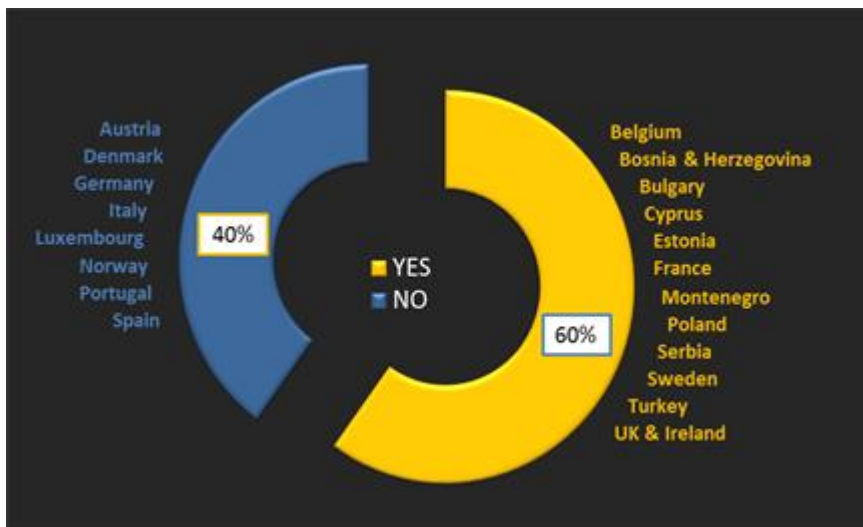
B.4. Mandatory internal audit function

This question is specifically about the **internal audit function**. “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operation. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes”. There is no relation to other functions of supervision or internal control.

As to the existence of an obligation for the public sector to have an internal audit function in place, 60 % of the participant countries responded affirmatively whereas in 40% of the polled countries the provided response showed that such obligation does not exist.

The list of participant countries where the internal audit function is mandatory for (part of) the public sector is made up by the following: Belgium, Bosnia, Bulgaria, Cyprus, Estonia, France, Montenegro, Poland, Serbia, Sweden, Turkey, and UK and Ireland, unlike countries such as Austria, Denmark, Germany, Italy, Luxembourg, Norway, Portugal and Spain where such obligation is not in place.

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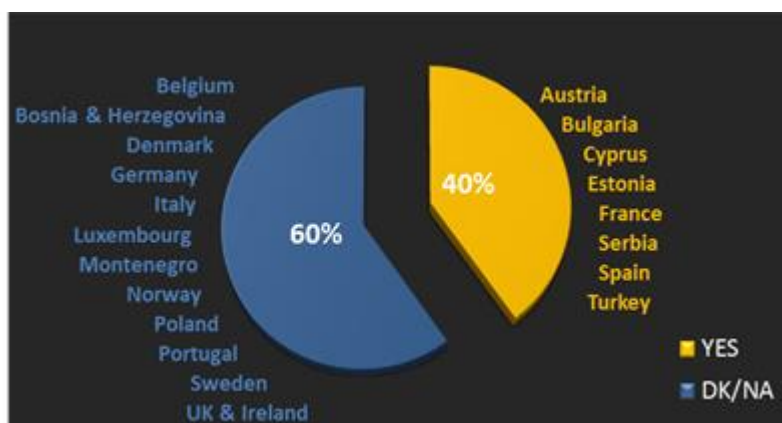


B.5. Public entities with QA (Quality Assurance)

This certification assures that the internal audit function is compliant with the International Professional Practice Framework.

The results obtained show that less than half of the polled countries (40%) count on public entities with Quality Assurance.

It is a challenge to increase this percentage in the future, as counting on more public entities with QA will make the work more uniform and useful for SAIs.



B.6 Mandatory CIA (Certified Internal Auditor) for internal auditors in the public sector

The survey shows that it is nowhere compulsory for internal auditors of the public sector to have and retain the CIA (Internal Audit Certification).

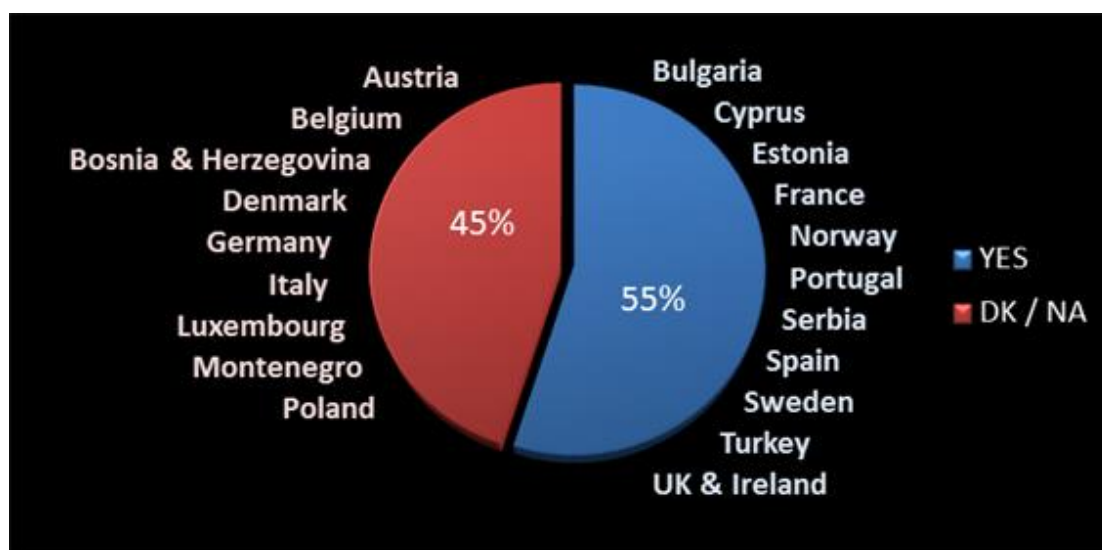
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B.7. Percentage of certified auditors in the public sector

The CIA (Certified Internal Auditor) certification is the only globally accepted certification for internal auditors and remains the standard by which individuals demonstrate their competency and professionalism in the internal auditing field.

Concerning the percentage of public entities having certified internal auditors (CIA or equivalent), the results obtained show that certified internal auditors are present in 45% to 55% of public entities.

The countries showing a more extensive presence of certified auditors in the public sector include Bulgaria, Cyprus, Estonia, France, Norway, Portugal, Serbia, Spain, Sweden, Turkey, UK and Ireland, whereas the countries with the lowest percentage of certified auditors in public entities include Belgium, Bosnia, Denmark, Germany, Italy, Luxembourg, Montenegro and Poland.



B.8. Conclusions of the ECIIA survey conducted for National Institutes

ECIIA has sent 34 surveys to all National Institutes. 20 National Institutes have completed the ECIIA survey (59%).

- For 60% of the countries involved, it is mandatory for (part of) the public sector to have an internal audit function.
- However, there is no direct relation between having a mandatory internal audit function in public entities and having mandatory (QA and/or CIA) certification, as only 40% of the public sector entities have QA.

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- Although internal auditors working for the public sector are not required to be certified, those countries where public entities hold a QA have more than half of their internal auditors certified (CIA or equivalent).

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C. ECIIA SURVEY: PUBLIC ENTITIES

The survey, organized in 12 questions, was aimed to obtain an overview of the internal audit profession in public entities at the European level and was distributed to 42 public entities of 6 countries in February 2014.

The following countries participated in the survey providing a response to the below stated questionnaire and requested data: Austria, Germany, Norway, Portugal, Serbia and Spain.

- Does your entity have any contact with the national Supreme Audit Institution? Is this contact legally regulated?
- Is your entity audited by the SAI? Does the SAI use the work of your internal audit department for their audits?
- Data
 - ✓ Number of employees in your entity
 - ✓ Number of internal auditors in your entity
 - ✓ Does internal audit in your entity have a Quality Assurance Certification QA?
 - ✓ Does the internal audit department apply the International Professional Practices Framework?
- Other Data
 - ✓ Does your entity have a department of risk management?
 - ✓ Do internal audit and risk management belong to the same unit?
 - ✓ Does your organization have a compliance department?
 - ✓ Is the function of compliance independent of internal audit?

C.1. Contact with the Supreme Audit Institution (SAI)

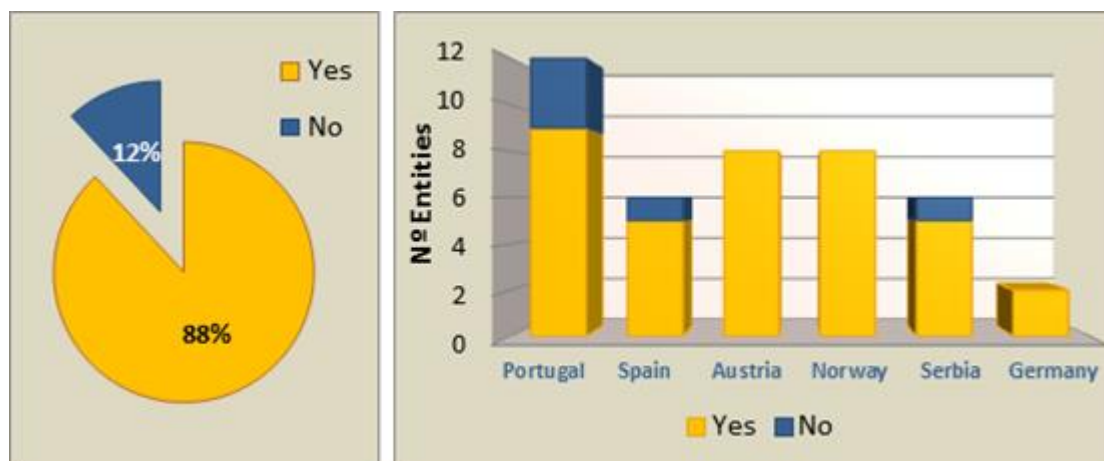
This question was specifically about DIRECT contacts with the national SAI and did not include regional external audit institutions or public sector internal control.

According to the obtained results, all countries confirmed the existence of contact between their public entities and the SAI.

In fact, the majority of the participant public entities have contact with the SAI, since 88% of them responded affirmatively, whereas only 12% of them indicated this contact does not take place.

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The results show that all public entities polled in Austria, Germany and Norway maintain contact with the SAI, whereas this percentage reaches 83% in Serbia and Spain, and 75% in Portugal.

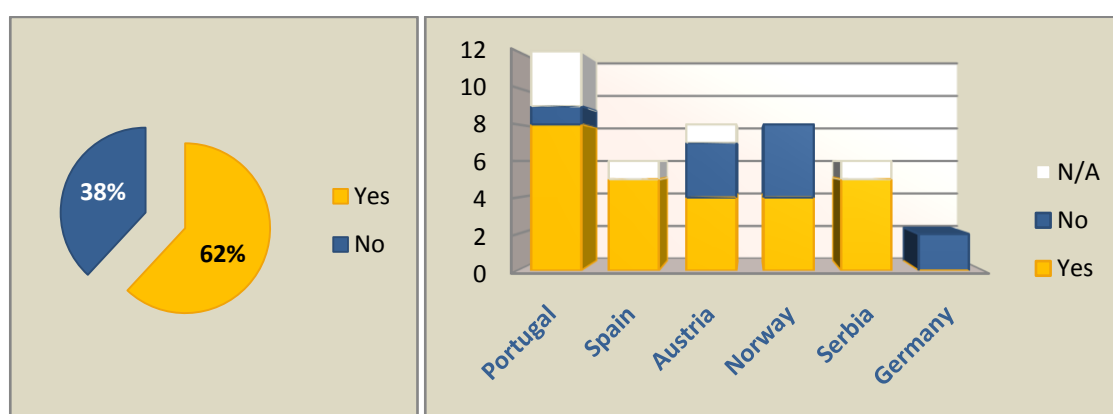


Contact with the Supreme Audit Institution legally regulated

This question is part of the first question and in the same context, i.e. only direct contacts.

Connecting both questions, the first conclusion is that there are some public entities that have contact with the SAI while this contact is not legally regulated.

In general, 62% of the public entities indicate the contact maintained with the SAI is legally regulated. For Austrian and Norwegian entities such contact with the SAI is legally regulated in half of the polled entities.



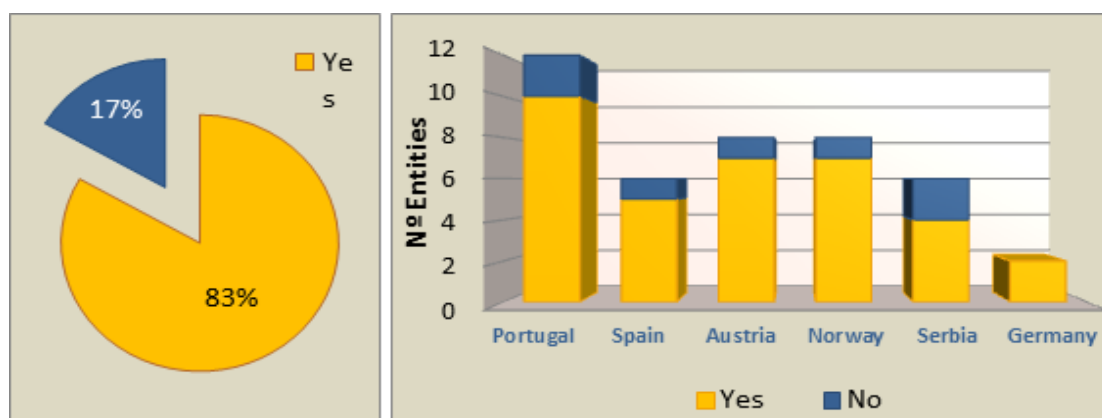
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C.2. Public entities audited by SAI

This question is about DIRECT audit and only by the SAI.

There is a connection between the contact being legally regulated and being audited by the SAI. But the second percentage is higher than the first.

Most of the public entities (83%) in the participant countries are audited by the SAI, whereas 17% of public entities are not audited. In Germany, all the entities are audited by the SAI and in general for the rest of the countries and entities the percentage of public entities audited by the SAI exceeds 80% in Austria, Norway, Portugal and Spain, with Serbia showing the lowest level, reporting that only 67% of their public entities are audited by the SAI.

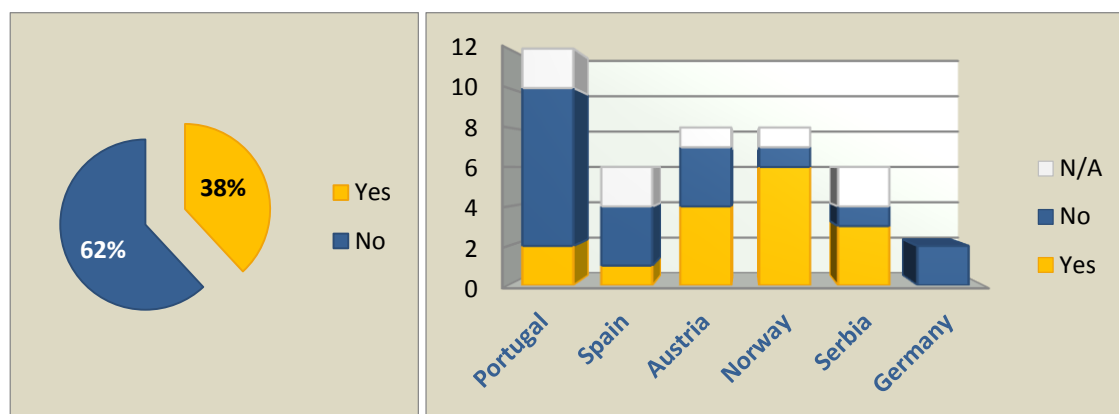


Use of the internal audit work by the SAI

Although 83% of the public entities are audited by the SAI, the use of internal audit department findings and work by the SAI is limited to 38%. The countries reporting a more extensive use of internal audit work by the SAI are Norway and Serbia, where this takes place in 86% and 75% of public entities audited by SAI respectively. Portugal and Spain show a limited percentage of the use of internal audit work by the SAI, reaching only 20%.

In Germany the SAI does not use the work performed by internal audit at all.

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C.3. Data

The data provided concerning the number of employees and the number of internal auditors in public entities result in the following ratios:

The ratio of n° internal auditors / n° employees in public entities is 1.5‰

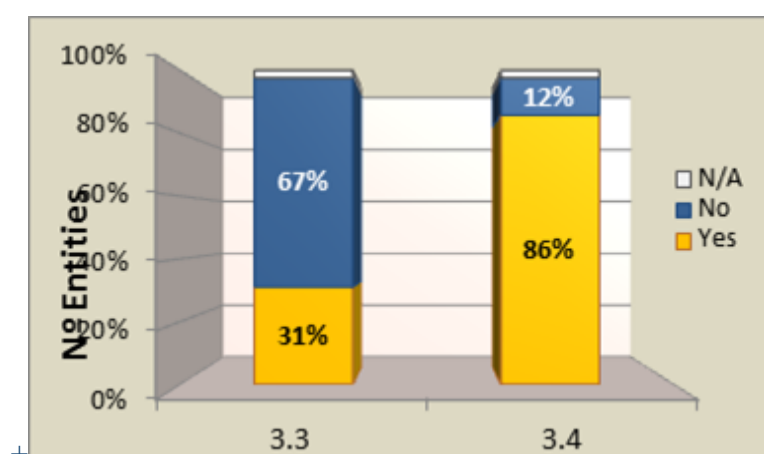
The ratio in private companies average is approximately 5‰

C.3.1. Internal Audit QA Certification

Only 31% of internal audit departments of public entities hold Quality Assurance Certification.

C.3.2. International Professional Practices Framework

Most of the public entities polled (86%) confirm that their internal audit departments apply the International Professional Practices Framework.



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C.4. Other data

C.4.1. Risk Management Department

Concerning the existence of a department in charge of risk management, less than half of the public entities (45%) confirm they do have such department in place.

C.4.2 Risk Management Department & Internal Audit Department

In relation to the organizational approach taken, only a limited percentage of those public entities having a risk management department in place confirmed it belongs to the same unit as internal audit (10%), since most of them (36%) organize both functions separately (not pertaining to the same unit).

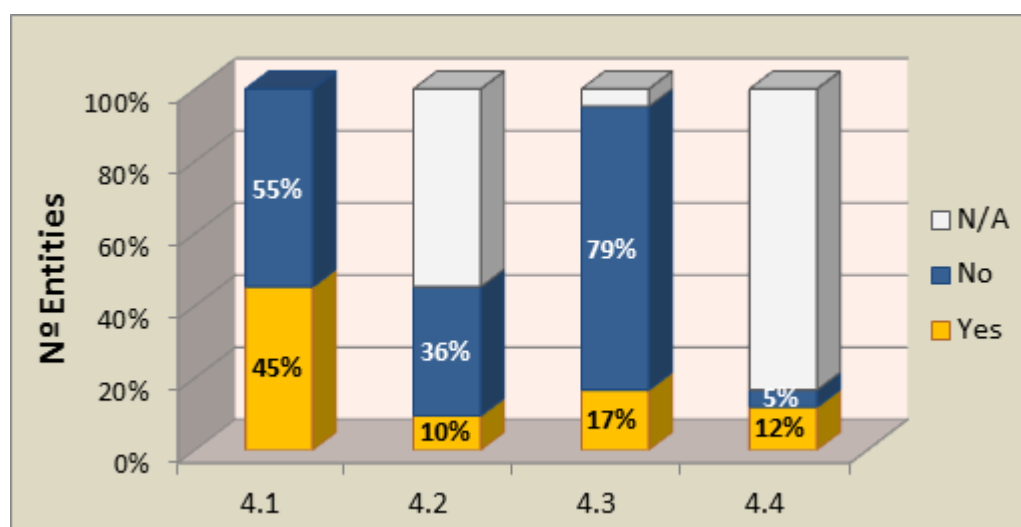
C.4.3. Existence of a Compliance Department

Public entities were questioned about the existence of a compliance department within their respective organizations. According to the responses provided by participants a high percentage of them (79%) do not count on a compliance department with only 17% confirming this is in place in their organizations.

C.4.4. Compliance Department independence

For those participants that confirmed they had a compliance department in place (17% as per prior section), a question related to their independence was made in order to identify their degree of dependence of internal audit departments.

In most of the cases (12%) the compliance department was confirmed as being independent from internal audit. Only in a limited number of public entities (5%) such independence between compliance department and internal audit department does not exist.



C.5. Conclusions of the ECIIA survey conducted for public entities

42 public entities in 6 countries have completed the ECIIA survey.

- The majority of these public entities have contact with the SAI (88%).
- The contacts between the SAI and public entities are regulated in 62% but the SAI audits 83% of public entities.
- The majority of the public entities are audited by the SAI (83%), however the SAI only uses the findings of internal auditors in 38%.
- It is not typical to have QA (only 31% of public entities).
- It is typical that internal audit departments apply the IPPF.
- Risk management is an activity more frequent in the public entities than compliance.