

Roles of Internal Auditors in the Public Sector

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“A healthy constructed internal audit function can play a vital role in the governance and accountability process of public sector institutions through their assessments on the effectiveness of key organizational controls, governance and risk management processes”

Internal Audit Function in the Public Sector

IA Function can be identified as involving 3 main elements:

Risk Management, Control and Governance

Roles of Internal Auditors in the Public Sector

Public sector auditors are in a unique position when it comes to serving their stakeholders. Not only do they need to satisfy the needs of their CEOs, BODs, management, and regulators, they often have to balance those requirements with their political and public stakeholders.

Risk Management Role in IA

IA's role in risk management involving assessing and monitoring the risks that the organization faces, recommending the controls required to mitigate those risks and evaluating the trade-offs necessary for the organization to accomplish its strategic and operational objectives.

Control Role of IA

- Internal auditing as a control measure does not only minimize the opportunities for corruption but also ensures effective monitoring to avoid fraud and abuse.
- IA has played an active role in implementing effective governance and controls while being asked to assess effectiveness of controls.

Governance Process Role of IA

- IA activity should assess and make appropriate recommendations for improving the governance process to accomplish:
 - Promoting appropriate ethics and values
 - Ensuring effective organizational performance management and accountability
 - Effectively communicating information among the (thru ACC) Board and management

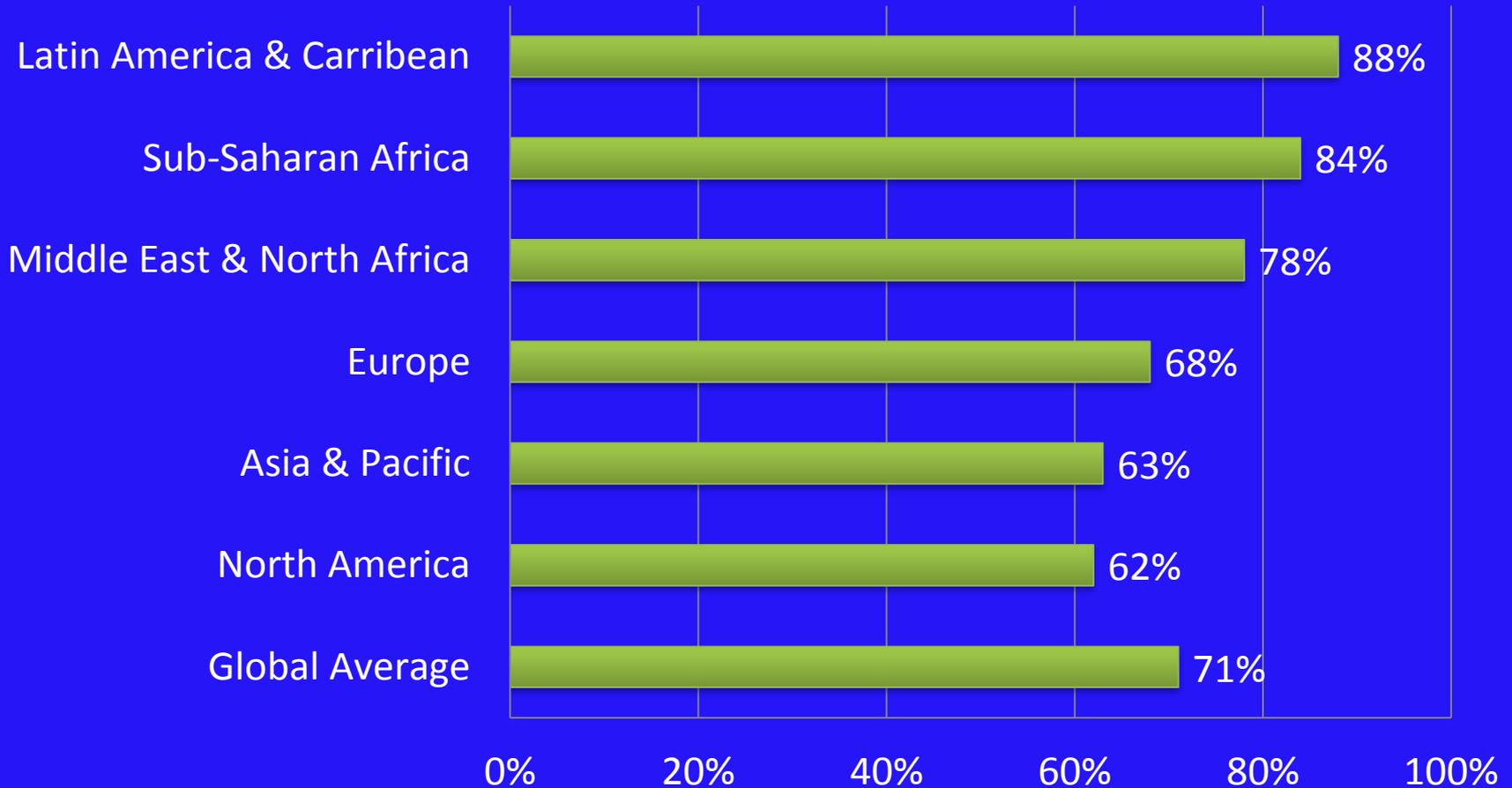
Areas of the Public Sector which Internal Auditors work

- Internal auditors have variety of roles, especially depending on the government structure of the region in which they work.
 - A. Core Government
 - B. Government-owned market enterprise or public sector
 - C. Government-operated services (such as schools, hospitals, or mail delivery)

Levels where Internal Auditors work

- In some parts of the world, the majority of internal auditors are working at National level.
- In Asia, they are at the Local and National level.

Internal Audit Mandated by Law (Public Sector Only)



Note: Q68: Is the existence of an internal audit department mandated by law for your organization? Public Sector respondents only. n= 2,572

Impact of Funding Shortages

- Over the past years, most government across the globe have cut funding to public services in the continuing aftermath of the financial crisis 2007 / 2008.
- There may be light on the horizon for some. About a third of public sector CAEs say their budgets increased in the previous year (34%), although this lags behind the non-public sector average of 42%.
- In terms of full-time permanent positions, the public sector also saw increases from the previous year, but again, not at the same rate as the non-public sector.
- About 25% of CAEs in the public sector reported an increase, compared with 31% in the non-public sector.

HIGHER EXPECTATIONS FOR PUBLIC SECTOR INTERNAL AUDITORS

- Although internal auditors in the public sector are experiencing funding shortages, they also face increased expectations.
- This is leading to additional work from issues raised by members of the public. The public is becoming more challenging of public services and of internal audit's ability to 'resolve' issues to their satisfaction, which is promoting an expectations gap.
- Internal audit must do more with less in the current circumstances. That could mean sharing internal audit services across multiple agencies.

Governing IA Standards

- International Standards for the Professional Practice of Internal Auditing (Standards)
- Philippine Government Internal Audit Manual (PGIAM)
- Issuances of IIA and IIA-P
- Issuances of Regulators (like BSP, COA)

Threats to Independence and Objectivity

“Lack of financial expertise on the audit committee is likely to affect the quality of the audit planning process, especially if they do not understand what internal audit could or should be doing. In addition, they may just remove the chief audit executive if they don't agree with him or her.”

- Christie O'Loughlin

ACTION POINTS : PROMOTING INDEPENDENCE

1. Focus on building strong, professional relationships with key stakeholders based on honesty competence, and reliability.
2. Seize the opportunity to facilitate a conversation leveraging the Three Lines of Defense Model. IA can take on a consultative and educator role in helping key stakeholders understand the importance of an effective three lines of defense.

Governance of risk: Three lines of defense

- 1st line of defense – functions that own and manage risk.
- 2nd line of defense – functions that oversee or specialize in risk management, compliance.
- 3rd line of defense – functions that provide independent assurance, above all internal audit.

Three Lines of Defense



**Thank You.
Happy Auditing**

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