



Negotiating Team for the Accession of Ukraine to the European Union
Working Group for Chapter 32 – Financial Control

Chapter 32 — Financial Control

Denys Uliutin
FIRST DEPUTY MINISTER OF FINANCE
MINISTRY OF FINANCE OF UKRAINE

Brussels, 8 October 2024



The scope of financial control covers



Public internal financial control



External audit



Protection of the EU's financial interests



Protection of the Euro against counterfeiting

The system of controls over public finance in Ukraine: advantages and planned improvements



The system of controls over public finance established in Ukraine addresses the issues outlined in Chapter 32



Powers of control authorities are legally defined and delimited



A system of control authorities allows for more complete and efficient control of resources



Appropriate and diverse tools are used for control



All stakeholders are provided with information to make appropriate management decisions



The system of “checks and balances” of the branches of power is ensured



Amendments to the Law on the Accounting Chamber adopted in the first reading by the Parliament and amendments to the law on the State Audit Service are being prepared to clarify their powers

(including in terms of financial audits conducted exclusively by the Accounting Chamber and “specialized” audits in certain areas, inspections, procurement monitoring and checks conducted by the State Audit Service)



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Public Internal Financial Control

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PIFC in Ukraine: a strategic framework



2005

Concept for the Development of the Public Internal Financial Control until 2017

(Government Order No. 158-r of May 24, 2005)

Provides conceptual framework for PIFC - conceptual basis, main tasks and strategic directions of the reform

2013

Strategy for the Development of the Public Finance Management System and Action Plan for its Implementation (was valid until 2017)

(Government Order No. 774-r of August 1, 2013)

Defines the issues of PIFC development in separate sections: a description of the current state of PIFC and analysis of existing problems (including dates of strategy adoptions), tasks and measures for further PIFC development, expected results and associated risks

2017

Strategy for Reforming the Public Finance Management System for 2017-2020 and Action Plan for its Implementation

(Orders No. 142-r of February 8, 2017 and No. 415-r of May 24, 2017)

2021

Current Strategy for Reforming the Public Finance Management System for 2022-2025 and Action Plan for its Implementation

(Government Order No. 1805-r of December 29, 2021)

The goal:

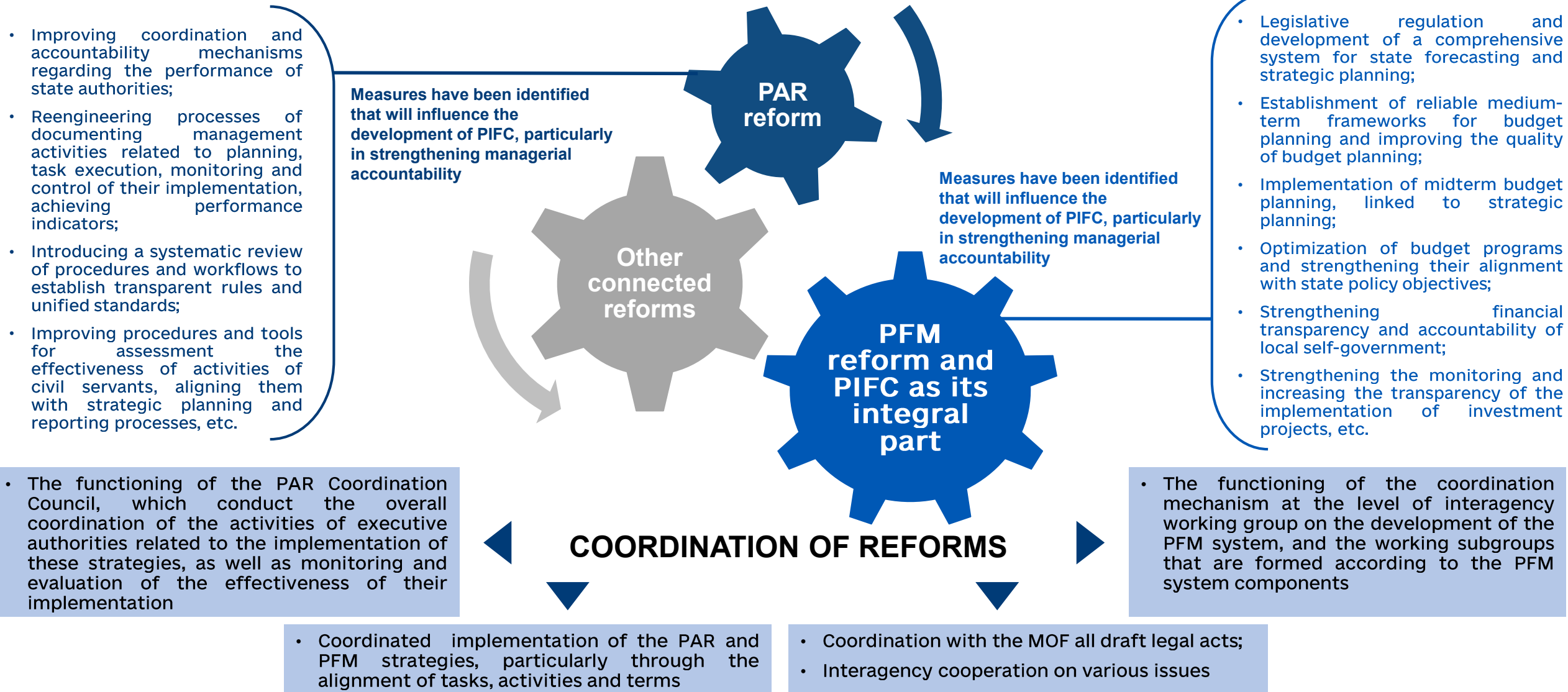
Strengthening managerial accountability at all levels of the public sector, improving the effectiveness of IC and IA in state authorities

Defines tasks and measures for:

- ❑ implementation of IC aimed at strengthening the responsibility of managers for the management and development of the institution as a whole;
- ❑ strengthening the efficiency, capacity and independence of IA;
- ❑ increasing the institutional capacity of the CHU of the MOF.



Development of PIFC: connection with other reforms





PIFC: legislative framework



Ukraine created a complete regulatory framework and methodological support for the PIFC, which is based on international standards and practices

IA: revision of the regulatory framework in connection with the new Global Internal Audit Standards (GIAS)



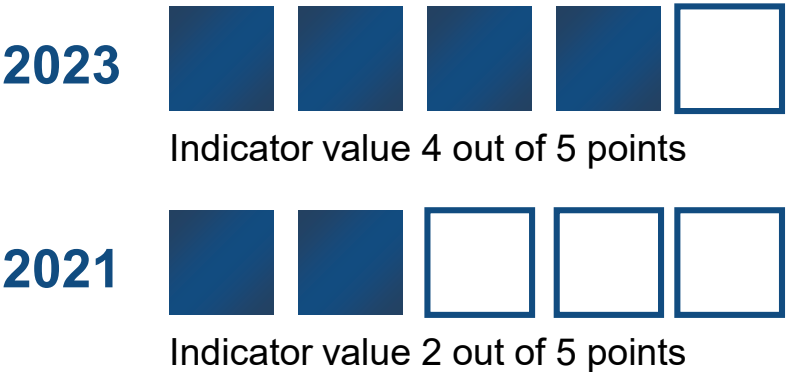
| Transitional period | | Implementation period |
|---|--|--|
| 2024 | 2025 | 2026 |
|  Measures being implemented |  Planned activities | |
| Introduction of the new GIAS to internal auditors through trainings | Development of draft amendments to national regulations on IA in order to adapt / comply with the GIAS | Update of the IA methodology in line with GIAS |
| Analysis of the harmonization of national regulations on IA with GIAS | Analysis of harmonization / compliance of the developed draft amendments to regulations and GIAS | Consultations and explanations to employees of internal audit units on the implemented changes |
| Consultations with European experts on ways to implement GIAS | Amendments to national regulations on IA | Training events for internal auditors on the practical application of the introduced changes |

Operational framework of IC and IA in Ukraine: Sigma assessment - 2023

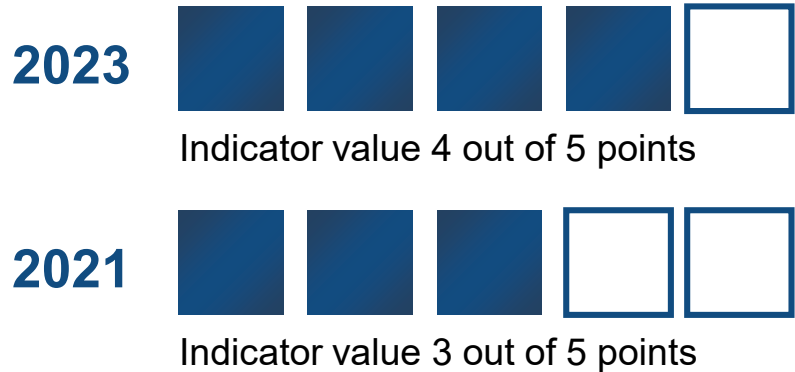


Value

Indicator 6.6.1.
Adequacy of the operational framework for internal control



Indicator 6.8.1.
Adequacy of the operational framework for internal audit



Conclusion

 **The established legal and operational framework for IC and IA is largely in line with international standards and good practice**



Implementation: IC functioning in state authorities

(based on results of the CHU analysis, end of 2023)



Strengthening of managerial accountability

- internal documents define the functions and procedures aimed at fulfilling the main tasks, achieving the goals, including prevention of violations (including corruption/fraud), abuse and losses;
- strategic and annual planning activities are carried out, and the achievement of results is monitored and evaluated;
- the process of preparing reports on the activities of spending units, including lower-level ones and recipients of budget funds, was improved;
- the accountability of responsible persons is linked to delegated powers (in particular, the list of those responsible for the formation, implementation of budget programs and reporting is determined);
- certain procedures of the budgeting process are being optimized and improved; the distribution of functional workload between structural units and their employees is being reviewed;
- an electronic document management system was introduced; technical protection of information is being improved; measures are being taken to digitalize management processes;
- training seminars are held to strengthen managerial accountability.

Risk management

- approaches and responsibilities for risk management and response are being defined (working groups are being created or officials are being appointed to coordinate risk management activities; procedures are being formalized in internal documents, etc.);
- steps are being taken to implement control measures to: influence risks; enhance management efficiency; improve the functioning of IT systems; prevent and deter corruption violations/fraud and abuse;
- informing management about risk assessment, risky areas of activity are carried out, and control measures are taken.



Deficiencies in ensuring the implementation of IC



Failure to ensure the integrity of IC (its elements are fragmented and/or operate separately from each other and are not sufficiently balanced, focusing on the implementation and functioning of only certain aspects)



IC is seen as a separate activity or measure (management control, supervision, control over the use of budget funds or timely execution of orders, etc.)



Risk management and monitoring focuses on formalizing such activities or is implemented in isolation from the management decision-making process



The need to focus IC on efficiency in achieving results in accordance with the established goals and tasks is not taken into account

Implementation: IA functioning in state authorities

(based on results of the CHU analysis, end of 2023)

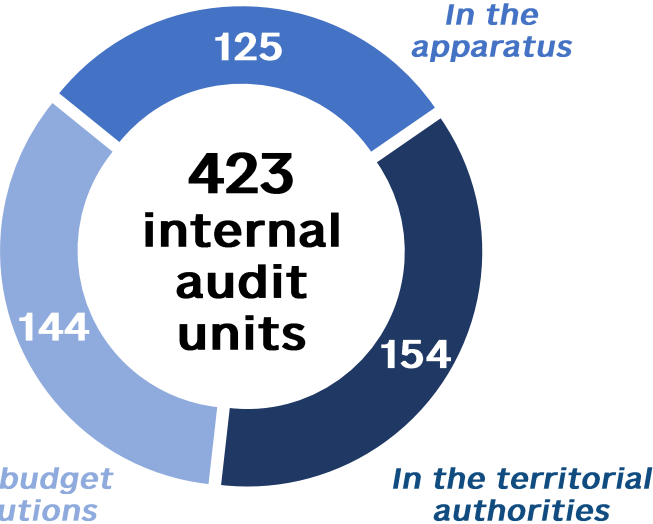


Organization of IA within state authorities



IA activity are organized in all state authorities

(ministries, other central executive authorities, regional and Kyiv City State Administrations, and other key spending units of state budget)



Overall HR capacity of IA units



The number of internal auditors positions

1702



Positions of internal auditors were filled

1180

Independence of IA units



Organizational independence of IA units is generally ensured

(cases of deviations remain in only 5% of units, mainly in the institutions of the system of regional administrations)



Functional independence of IA units is generally ensured

(cases of deviations remain in the system of 29.6% of authorities, but the costs of performing unrelated functions are insignificant, for example, about 1.5% of internal auditors' working time was spent on other control activities unrelated to IA (internal investigations, checks etc.)



Implementation: IA functioning in state authorities

(based on results of the CHU analysis, end of 2023)



IA activities were intensified in 2023 despite the war



increase in the number of internal audits conducted (from 1.1 thousand to almost 1.5 thousand)



increase in the number of audit recommendations (from 8.5 thousand to 12.4 thousand)



increase in the level of implementation of audit recommendations (from 85.9 % to almost 89 %)

Conducting of internal audits



97% of the tasks and activities envisaged in the plans were completed



almost **1.5 thousand** internal audits were completed, a significant part of which were performance audits

Implementation of IA recommendations



almost 89% of audit recommendations were implemented
(fully or partly, excluding recommendations that have not yet been expired)



as a result of the implementation of recommendations, in particular, the following was achieved:

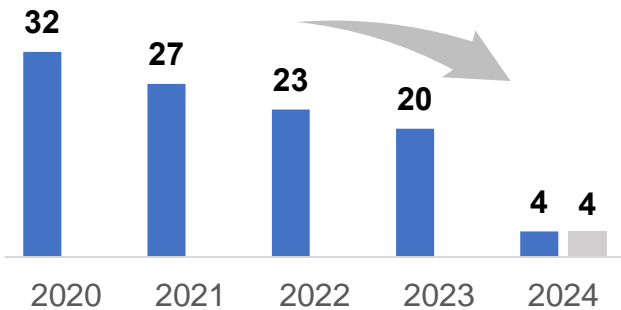
- revision or development of new regulatory or internal documents;
- improvement of structures;
- elimination of duplication of functions;
- improvement of information exchange;
- improvement of reporting;
- improvement of the quality of tasks and functions;
- saving of public funds or additional resources

Implementation: positive trends of the IA development

(based on results of the CHU analysis, recent years statistics)



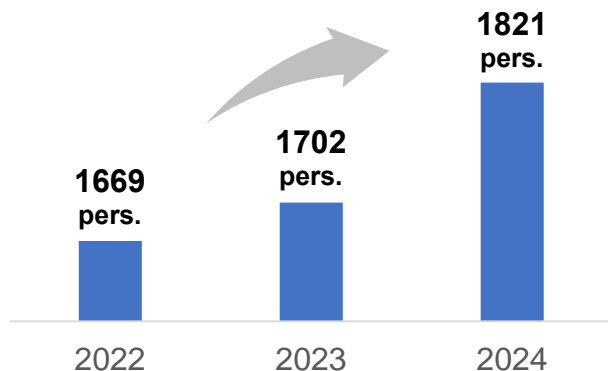
Increase in the capacity



Decrease in the number of authorities with one staff member in charge of IA (such facts remain in 8 authorities, of which 4 have less than 50 employees of total staff)



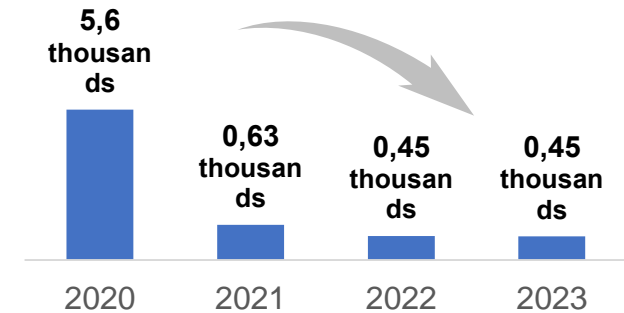
Insufficient coverage for small units (39 authorities with 1 or 2 auditors in their system account for less than 1% of state budget expenditures)



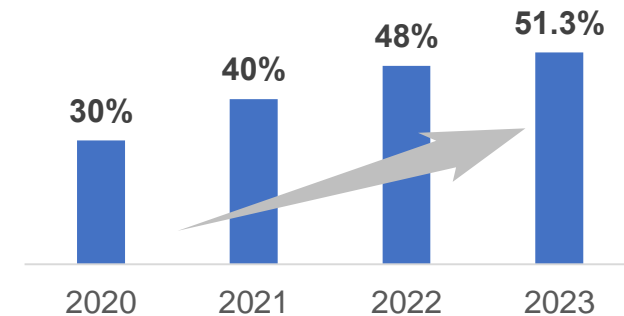
Increase in the number of internal auditors

Improvement in functioning

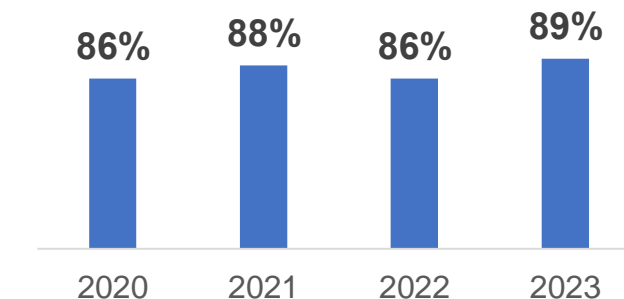
Strengthening of the independence of IA units reducing cases of unrelated functions, including participation in control activities (internal investigations, checks etc.) (by 12 times)



Change of priorities in conducting audits – increase in the share of planned performance audits (1,7 times)



Maintaining the level of implementation of recommendations and strengthening control over the response to audit recommendations



IA: areas of focus and room for improvement



Areas for further improvement of practical implementation of IA in state authorities



Strengthening the capacity of internal audit units:

- non-compliance of the structures of certain authorities with the requirements for the minimum number of employees of internal audit units;
- calculation of the number of internal auditors in certain authorities without taking into account the criteria set forth in Procedure No. 1001;
- problems with the effectiveness of the small IA units



Staff issues in the internal audit units:

- incomplete position filling (including in some authorities complete lack of staff for a long time), high vacancy rate;
- staff turnover and instability of the staff composition



Extent to which the functional independence of internal audit units is ensured and the need to avoid wasting auditors' working time on unrelated functions



Needs for improvement the quality of audits, audit reports and expansion of tools used in the practical work of internal auditors, based on the developed methodology and best practices



Improvement of the effectiveness of audit recommendations (ensuring a positive impact on the institution's activities and adding value)

Development of PIFC: some of the support measures implemented by the CHU (2017 – 2024)



Goal Promotion of the full implementation of certain regulatory frameworks in the practical activities of state authorities

Measures implemented



Methodological support

IA methodological guidelines, 20 manuals on IA and IC
(on risk-based planning, performance audit, IT audit, audit committees, quality assessment, strengthening managerial accountability, risk management, monitoring, etc.)



Practical support

5 pilot projects on IC aimed at strengthening the responsibility of managers for the management and development of the institution as a whole
4 pilot projects on IA including performance audit and external quality assessment



Training

16 training events on IC for all central-level state authorities on the basics of IC, managerial accountability and risk management
47 training events on IA on various topics



Quality assessment

27 assessments of the functioning of IA systems (external quality assessments), with recommendations to state authorities on improving IA systems and ensuring the proper implementation of the IA function



Reporting

CHU prepare and submit to the Government annual reports on the current state of the PIFC, together with proposals for further development, which are implemented through the relevant governmental orders

Development of IC: strengthening managerial accountability



Prerequisites for the implementation of the internal control statement, declared by the head of the state authority on the proper functioning of IC and to providing sufficient guarantees that the resources of the institution were used in an appropriate manner and ensured the achievement of the institution's goals (*two blocks are included in the annual IC Report*):

Block 1

Regarding the manager's assessment of the actual state of IC in the institution (summary)

Block 2

General conclusion on the ability of the existing IC system to ensure the efficiency and effectiveness of activities using the amount of funds determined by the budget to achieve the goals of the institution (general conclusion)

Internal Control Statement, declared by the head of institution



Starting from 2026, the Internal Control Statement, declared by the head of institution (reflecting his/her statement on the effectiveness of IC in the relevant body) will be introduced, which will strengthen managerial accountability for the IC system

Development of IC: Amendments to the Basic Principles of Internal Control (adopted in June 2024)



Goal Strengthening managerial accountability

The improved Basic Principles of IC



Clarifying of the structure and content of managerial accountability, its strengthening at all levels of state authority and its territorial bodies, enterprises, institutions, organizations



Improvement of approaches to delegating powers to a lower-level



Ensuring effective accountability of state authority, its territorial authorities, enterprises, institutions and organizations (in particular, with regard to the exercise of delegated powers, management of resources provided, IC and risk management)



Focusing of management activities on efficiency and effectiveness (to ensure a cycle of consistent and repeatable processes for planning, executing, reporting and evaluation of succeeding achievements)



Management decision-making process based on risk-management (to ensure the achievement of goals, legal, efficient and transparent management of funds, preventing violations, abuse, corruption and fraud)



Requiring the head of the institution to prepare and submit an Internal Control Statement (since 2026)

Development of the PIFC: Implementation of audit committee activities



Goal Providing professional advice and reviewing issues related to the organization and functioning of IC and IA activities and their improvement

Measures implemented



The regulatory framework for the establishment and operation of audit committees was approved
(amendments were made to the Internal Audit Procedure No. 1001 regarding the requirements for the composition and main functions of committees)



The introduction of their activities in ministries was initiated at the strategic level
(the relevant requirement is included in the PFM Reform Strategy for 2022-2025)



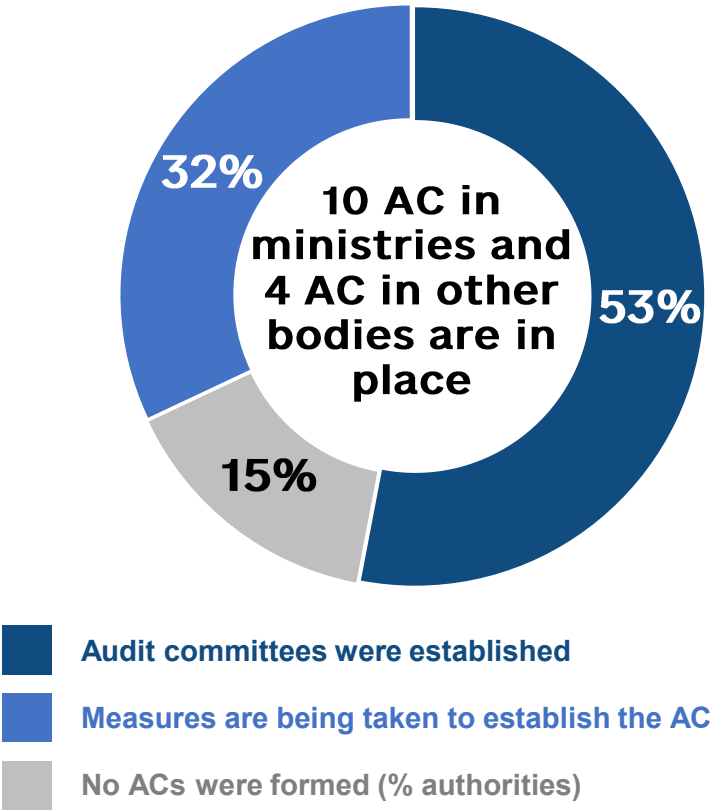
Methodological support for the activities of audit committees was developed
(the manual “Audit Committees: Basic Principles of Operation” was published, a report template on AC performance results and recommendations for its preparation has been prepared)



Training and consulting support to stakeholders were provided
(instructional letters were sent, a training event was held for the heads of IA units and a working visit was organized for members of some audit committees)

Practice

Statistical data on the status of audit committees in ministries



Development of the IA: introduction of internal auditors certification



Goal Increasing the professionalism of internal auditors and capacity of internal audit units and, as a result, improving their performance

Measures implemented



The regulatory framework was adopted

(Government Resolution No. 12 of January 12, 2022, and the Procedure for Certification of Internal Auditors (MOF Order No. 144 of May 18, 2022))



The Certification Commission was established

(including representatives of The IIA Ukraine and the State Tax University)



The Recommended Program for preparation certification and a general list of questions for the exam were approved

(were prepared among other things, with the technical support project of the Ministry of Finance of the Kingdom of the Netherlands)



Involvement of higher education institutions in the process of preparation for certification was initiated

(5 institutions confirmed their readiness to be involved)



2 training courses on the Recommended Program for total number of 277 candidates for certification were conducted

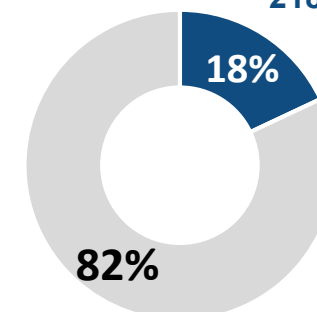


20 qualification exams for 246 candidates for the certificate took place, of which 52 internal auditors (or almost 21% of candidates) successfully passed the qualification exam

Practice

Participation of internal auditors in certification in 2023-2024

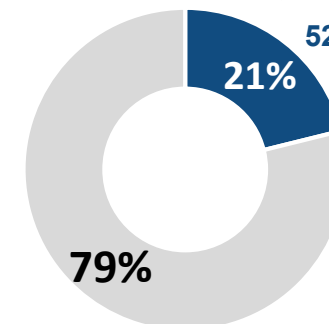
218 people



Share of certified internal auditors

(out of the total number of auditors who taken exams)

52 people



Development of IA: strengthening human resources



Goal Ensure that the positions of internal auditors are fully filled with qualified staff

Measures implemented



The training base for personnel training is being expanded - work has begun with universities to implement training programs on IA



A post-graduate course on IA was launched at the State Tax University and it is planned to introduce such a course at the master's level; 7 universities introduced the discipline "Internal Audit" at the master's and/or bachelor's level



It is planned to establish the Center for Professional Communication (CPC) as a training base, including for internal auditors of state bodies

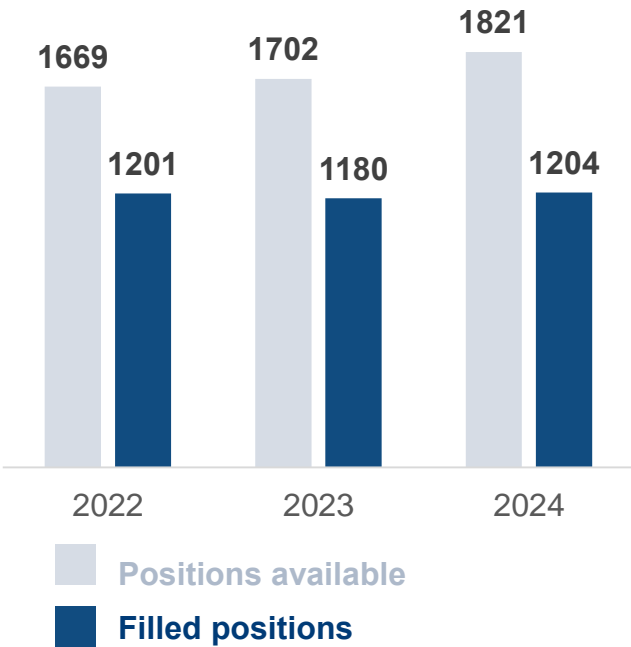


Possible motivational mechanisms are being developed to increase the prestige of the internal audit profession, in particular for certified auditors



State authorities were instructed to intensify their efforts to ensure the filling of internal auditors positions (in accordance with the Government Order of February 09, 2024 No. 133 and Government direction for the PIFC annual report)

Dynamic of internal auditors








Development of the PIFC: planned digitalization



Goal Automation of key business processes for the IC, IA and CHU

Structure of the PIFC portal

| | | |
|--|-------------------------------------|---|
|  | Information block | an interactive database of regulatory, methodological and explanatory materials on the PIFC |
|  | Learning block | tools for conducting training activities on IC and IA, professional level assessment (certification of auditors) |
|  | Analytical block for IA | tools for automating the processes of planning, maintaining audit files, monitoring recommendations, internal quality assessment, reporting, etc. |
|  | Analytical block for IC | tools for reporting on IC and planning measures to improve IC |
|  | Analytical block for the CHU | tools for summarizing and analyzing IC and IA reports, external quality assessment, performance monitoring, building analytical reports, etc. |

Measures implemented

- **A Concept Note was developed** that defines the main parameters and structure of the PIFC portal
- **Work has begun on the preparation of specifications** for the portal's IT solution, including the preparation of a detailed description of functional requirements

Activities planned to develop PIFC



Goal Development of IC, complete practical implementation of all its elements in the state authorities, strengthening of managerial accountability

Measures planned

2024-26

Introduction of an internal control statement (development/approval of the statement template, preparation of guidance documents, consulting)

2024

Implementation of measures for raising IC awareness (holding a conference on IC for senior management of state authorities)

2025

Amendments to the Methodological Recommendations on the Organization of Internal Control (MOF Order No. 995 of September 14, 2012) in terms of managerial accountability, practical implementation of risk management

2024-26

Implementation of a training program on IC (in particular, on managerial accountability, risk management, etc.)

2024-26

Promotion of the development of the audit committees' activities in terms of introducing professional **advice** and consideration of issues related to the organization of IC, preparing recommendations for its improvement

Activities planned to develop PIFC



Goal Development of IA, increase in the capacity of units, professional growth of auditors, and ensuring high quality of audit work

Measures planned

2024-26

Development of mechanisms for joint organizational forms of internal audit

2024-26

Implementation of the Professional Development Program for internal auditors, development and implementation of “specialized” training programs on IA
(in particular, on the use of IT tools, consulting activities)

2025

Consideration of the possibility of introducing incentive mechanisms for certification of internal auditors

2025-26

Implementation of the new Global Internal Audit Standards

2024-26

Promotion of audit committees' activities, provision of methodological and advisory support

2024-26

Consideration of the possibility of introducing alternative methods of organizing the external quality assessment of internal audit

Activities planned to develop PIFC



Goal Development of institutional capacity, implementation of best practices, automation of processes

Measures planned

2024-26

Development and maintenance of the PIFC portal

2024-26

Establishment of the Center for Professional Communication (CPC) on the basis of the State Tax University

2024-26

Increase of the institutional capacity of the CHU, including increasing the number of employees

2024-26

Active cooperation with technical support projects and exchange of experience on the PIFC reform with the CHU's of EU member states

Measures taken by state authorities to prevent and detect corruption



During the organization and implementation of IC, the head of the state authority shall implement relevant policies, rules and measures



adoption of an anti-corruption program;



establishment of a working group on corruption risk assessment;



measures to prevent, deter, and detect corruption;



measures to prevent and resolve conflicts of interest;



internal channels for reporting possible facts of corruption and their consideration;



response measures (internal investigations, dismissal of a person, compensation for losses, damages, etc.);



communication with law enforcement agencies;



a drafted regulatory act to be sent to the NACP for anti-corruption expertise.

if the employee's actions reveal signs of corruption



transfer of materials to law enforcement agencies, NACP

upon the submission of a law enforcement agency or the NACP the institution goes under an internal investigation to identify the causes and conditions of the violation

Measures taken by state authorities to prevent and detect corruption



The role of IA (in particular, in accordance with the provisions of the IA Procedure No. 1001 and the Internal Audit Standards)

Regulatory requirement



Evaluation and provision of relevant recommendations on the extent to which the system of implemented measures to prevent corruption meets the requirements of the institution, as well as whether this system is able to effectively manage corruption risks

Practice

Measures are being taken to improve the practical work of the IA units:

- in 2023 the CHU conducted a review (survey) on the role of IA in preventing corruption and fraud or detecting their signs, and providing relevant recommendations;
- trainings on the role of IA in preventing corruption and fraud are being conducted

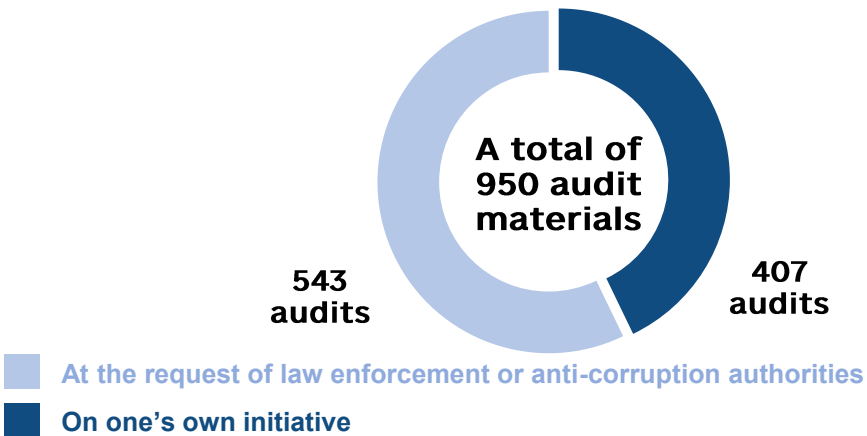


Immediate notification of the head of the authority on signs of corruption offenses, misuse of funds, abuse, other violations that led to losses or damages, with recommendations for taking the necessary measures



Upon the decision of the head of the state authority - informing and/or submitting to law enforcement agencies the internal audit materials that reveal signs of corruption or misuse of funds, abuse of office, or other violations that have led to losses or damages

Informing / submitting internal audit materials to law enforcement or anti-corruption authorities
(for 2023 and 7 months of 2024)



Contact details of the Presenter



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Ministry of Finance of Ukraine





ANNEXES

1. Abbreviations



AC — audit committees

CHU — Central Harmonization Unit (Department of PIFC Harmonization in the Ministry of Finance)

ESBU — Economic Security Bureau of Ukraine

Government – Cabinet of Ministers of Ukraine

IA — internal audit

IC — internal control

MOF — Ministry of Finance of Ukraine

NACP — National Agency on Corruption Prevention

NBU — National Bank of Ukraine

PIFC — Public Internal Financial Control

PFM — Public Finance Management

2. System of controls over public finance in Ukraine



Public internal financial control



Internal control

The head of the spending unit ensures the organization and functioning of the IC

- Definition of internal rules, policies and procedures;
- Distribution of powers and clear definition of responsibilities;
- Risk management;
- Setting of control measures;
- Informational and communicational exchange;
- Monitoring



Internal audit

Internal audit units of spending units

- Implementation of internal audits;
- Provision of independent conclusions and recommendations to the head of the authority



Central Harmonization Unit

The Ministry of Finance (Department of PIFC Harmonization)

- Policy development and implementation;
- Determination of organizational and methodological basics;
- Assessment of IC and IA systems

3. System of controls over public finance in Ukraine



Accounting Chamber



Independent Supreme Audit Institution

ensures control on behalf of the Verkhovna Rada of Ukraine

Control over the receipt of funds to the State Budget of Ukraine and their use

Conducts:

- financial audit
- performance audit
- compliance audit
- expertize
- analysis and other control measures

4. System of controls over public finance in Ukraine



State Audit Service



Governmental Financial Control Authority

ensures control on behalf of the Cabinet of Ministers of Ukraine

Control over the use of state and local budgets, activities of public sector entities, state funds, and compliance with procurement legislation

Conducts:

- inspections;
- procurement checks;
- procurement monitoring;
- state financial audit

Perform the functions of the AFCOS

5. Controls over protection of the Euro against counterfeiting



National Bank of Ukraine



The Central Bank of Ukraine

realizes authorities in the field of protection of the Euro against counterfeiting

- Seizure of counterfeit banknotes, including euros, from circulation
- Informs ESBU about euro banknotes found to be counterfeit
- Examination of counterfeit banknotes upon the request of law enforcement agencies

Monthly exchange of information with the European Central Bank on counterfeit euro banknotes removed from circulation

The NBU's Competence Center for Counterfeiting Banknotes works

6. EU Acquis: requirements for the candidate country's PIFC



Chapter 32 Acquis

The candidate country should establish IC (based on managerial accountability) and IA in accordance with internationally recognized frameworks and standards (in particular, COSO and IIA)



EU-Ukraine Association Agreement

Ensuring the development of the PIFC system through harmonization with internationally recognized standards, methodologies and EU IC and IA best practices



There is no acquis that requires transposition into national legislation



Part three, article 347 of the EU Association Agreement

7. The history of the formation and development of the PIFC in Ukraine: key stages



Adoption of a Conceptual Framework for the future implementation of PIFC

(Concept for the Development of the PIFC, Government Order No. 158-r of May 24, 2005)

2005

Launch of IA functions in state authorities

(internal audit units have been established in ministries and other central authorities)

2010-11

2012

Approval of the legislative framework for the introduction of IC and IA

(new version of the Budget Code, the Procedure for Internal Audit of September 28, 2011 No. 1001, Internal Audit Standards, Code of Ethics, etc.)

2017

Establishment of the CHU in the Ministry of Finance in line with the best practices

Reviews of the development and capacity of IA and IC, conducted by the CHU, identifying measures for PIFC improvement

(with the support of the project of the Ministry of Finance of the Kingdom of the Netherlands)

2017-18

2018

Improvement of the IA Procedure, including its extension to all key spending units of state budget, introduction of the IA declaration, audit committees, strategic planning, etc.

(comprehensive amendments to the Procedure of September 28, 2011 No. 1001)

8. The history of the formation and development of the PIFC in Ukraine: key stages



Approval of the Basic Principles of Internal Control (unified approaches to the implementation of IC, elements and principles of IC, including managerial accountability, and annual reporting to the MOF on the state of IC)
(Government Resolution No. 1062 of December 12, 2018)

2018

Approval of a new version of the Internal Audit Standards, aligned even more with international standards
(new Standards No. 344 of August 14, 2019)

2019

2019

Approval of the template of the Report on the IC organization and implementation status, based on IC elements, preparation of a list of questions to describe the state of functioning of IC by state authorities
(MOF Order No. 160 of April 19, 2019)

2022

Started introducing audit committees into the practice of state authorities
(a number of ministries and other authorities have established and started working with such committees)

2023-24

Adoption of the regulatory framework for launching the process of national certification of internal auditors of state authorities
(amendments to the Procedure No. 1001, Certification Procedure No. 144 of May 18, 2022)

2023-24

Practical implementation of the national certification of internal auditors of state authorities
(the Certification Commission was established and qualification exams for the internal auditor certificate were launched)

9. PIFC: legal basis (Law)



Budget Code of Ukraine (Article 26)



Defines the essence of IC and IA



Obligates establishment of organization and implementation of IC and IA by all spending units in their institutions, as well as at enterprises, institutions and organizations that are managed by such spending units



Determines the powers of the Government and the MOF on the regulatory and methodological support of PIFC



Text of the Code

10. IC: secondary legislation



Basic Principles of Internal Control

(Government Resolution of December 12, 2018 No. 1062)

Define the framework requirements for IC:

- **components of IC** (internal environment, risk management, control measures, information and communication, monitoring);
- **approaches to ensuring IC** (a set of management measures, activity planning, implementation, risk communication, control measures, information exchange, reporting, evaluation of results, monitoring);
- **managerial accountability** (delegation of authority, responsibility and accountability, allocation of responsibilities and resources, risk management and fulfillment of accountability obligations);
- **principles of IC** (continuity, integration, objectivity, delegation, responsibility and accountability, adequacy, prevention, separation of IC and IA, openness)

ALIGNED

The regulatory framework for IC is based on the international COSO model, recommendations from the INTOSAI GOV 9100 Standards for IC in the Public Sector



Text of the Resolution

11. IC: secondary legislation



ЗВІТ
про стан організації та здійснення внутрішнього контролю у розрізі елементів внутрішнього контролю
в _____
(найменування державного органу)

за 2023 рік

Резюме
(Стислий опис фактичного стану функціонування внутрішнього контролю в установі)

При формуванні опису необхідно розкрити питання (текст не більше одного аркуша), зокрема щодо стану внутрішнього контролю в частині забезпечення дотримання законності та ефективності використання бюджетних коштів, досягнення результатів відповідно до встановленої мети, завдань, планів і вимог у відповідній сфері діяльності (розпорядника бюджетних коштів і підприємств, установ та організацій, що належать до сфери його управління), а саме:

- достатності вжитих організаційних заходів для забезпечення виконання основних завдань, досягнення цілей діяльності, мети, завдань та результативних показників бюджетних програм;
- ефективності та результативності діяльності при використанні визначеного бюджетом обсягу коштів;
- підтвердження у звітності інформації про ефективність та результативність діяльності;
- вжиття заходів для усунення причин відхилень від запланованого результату (зміни в плануванні, розподілі ресурсів тощо)

| з/п | 1 | 2 | 3 | 4 |
|--|---|---|---|---|
| I. Внутрішнє середовище | | | | |
| 1.1. | Встановлення мети (місії) та стратегічних цілей | | | |
| 1.2. | Управління ризиками | | | |
| 2.1. | Чи здійснювалася у звітному періоді практична діяльність | | | |
| III. Здійснення заходів контролю | | | | |
| 3.1. | Чи запроваджено у звітному періоді на належному рівні ² | | | |
| IV. Здійснення інформаційного та комунікаційного обміну | | | | |
| 4.1. | Чи забезпечено у звітному періоді необхідний рівень | | | |
| V. Здійснення моніторингу | | | | |
| 5.1. | | | | |
| VI. Загальний висновок | | | | |
| 6.1. | Чи забезпечує запроваджений внутрішній контроль у вашій установі відповідно до частини третьої статті 26 Бюджетного кодексу України, Основних засад здійснення внутрішнього контролю розпорядниками бюджетних коштів, затверджених постановою Кабінету Міністрів України від 12.12.2018 № 1062, та міжнародної практики (зокрема щодо достатньої гарантії належності використання ресурсів), що ресурси (у тому числі бюджетні кошти) використовуються в належний та ефективний спосіб з метою досягнення результатів відповідно до встановлених мети, завдань, планів і вимог? (так/ні) У випадку «ні» зазначте відповідні причини та які аспекти внутрішнього контролю в установі потребують відповідного удосконалення. | | | |

¹ - аналіз КРІ (Key Performance Indicators), ключові індикатори вимірювання виконання визначених стратегічних цілей;
² - «належний рівень» визначається безпосередньо установою з урахуванням реального стану виконання зазначеного процесу (відсутність зауважень і зауважень, порушень, а також у разі відсутності порушень та/або недоліків, виявлених підрозділом внутрішнього аудиту установи, відповідним головним розпорядником бюджетних коштів чи державним органом, що здійснює контроль у відповідній сфері (Розпорядником палатою, Державним казначейством, НАЗК тощо).

Керівник державного органу
(розпорядника бюджетних коштів)

_____ (найменування розпорядника бюджетних коштів) _____ (підпис) _____ (ім'я, прізвище)

Reporting form on the internal control organization and implementation status (MOF Order of April 19, 2019 No. 160) - defines a list of issues to assess and describe the state of IC (in particular, the state of managerial accountability, risk management)

- The list of questions in the context of IC elements is annually updated and communicated to institutions for the responses by September, the 1st
- Reflects the dynamics of development of the implemented IC system in the respective institution

The report includes blocks of questions:

- related to the position of the head of the institution :
 - summary - *assessment information on the actual state of IC in the institution;*
 - general conclusion - *reflects the ability of the existing IC system to ensure the efficiency and effectiveness of activities using the amount of funds determined by the budget to achieve the objectives of the institution.*
- information on the state of IC in terms of its elements

12. IA: secondary legislation



Procedure for Conducting Internal Audit (Government Resolution of September 28, 2011 No. 1001)

Defines requirements for IA activities:

- **approaches to the establishment of** internal audit units, **criteria** for their **size** and **qualification** requirements for internal auditors;
- main **tasks and functions** of internal audit units;
- requirements for **ensuring the organizational and functional independence** of units, including the signing of an IA declaration;
- **rights and obligations** of internal auditors;
- conditions to be provided by the head of the state authority for the IA;
- a **mechanism for planning** IA activities and **reporting** on their results;
- requirements for **ensuring the quality** of IA;
- **approach for the establishment of audit committees**, including requirements for its composition and the main tasks of the committee;
- general **approach for certification** of internal auditors, etc.

ALIGNED

The Procedure was developed based on concept paper and principles of the European Commission in the field of PIFC, and materials of the Institute of Internal Auditors (IIA)



Text of the Resolution

13. IA: secondary legislation



Internal Audit Standards

(MOF Order of October 4, 2011 No. 1247)

Define common approaches to IA activities (attribute standards and performance standards):

- general approaches to drafting internal documents on IA;
- requirements to ensure organizational and functional independence of the IA;
- standards of professional competence and diligence;
- approaches to ensuring and improving the quality of IA;
- determination of the criteria for effective management of the IA unit;
- mechanisms for risk-oriented planning IA activities;
- approaches to organizing an IA, planning and performing an audit assignment, documenting the course and results of an IA, and monitoring the implementation of recommendations based on the results of an audit;
- requirements for reporting on internal audit activities and providing information on their results

ALIGNED

The Standards are aligned with the International IIA's Standards-2017



Text of the Standards

14. IA: secondary legislation



Code of Ethics for Employees of Internal Audit Unit

(MOF Order of September 29, 2011 No. 1217)



provides the principles of moral and professional values and rules of conduct for employees of the internal audit unit, in particular: the principles of integrity, independence and objectivity, confidentiality and professional competence

Certification Procedure for Employees of Internal Audit Units

(MOF Order of May 18, 2022 No. 144)



defines the stages of certification, the powers of the Certification Commission, the structure of the program for preparation for certification, the procedure for conducting the exam and determining its results, requirements for advanced training of certified internal auditors

Procedure for External Quality Assessment of Internal Audit by the Ministry of Finance

(MOF Order of May 3, 2017 No. 480)



determines the mechanism for organizing, conducting, formalizing and implementing the results of the assessment of the IA system

Reporting on the performance of the internal audit unit

(MOF Order of March 27, 2014 No. 347)



provides the form of reporting on the results of the internal audit unit's activities as well as guidance for report preparation and submission

15. Implementation: IC functioning in state authorities



The state authorities have organized and maintained IC in accordance with the COSO model and provided for the functioning of IC elements:

- Internal environment
- Risk management
- Control measures
- Information and communication
- Monitoring

The organizational structure of management is based on the three-line model in the context of EU countries practice, namely functioning of the:

| | |
|--------------------|---|
| First line | Units responsible for performing the main tasks of the institution or operational units |
| Second line | Support, supervision, control and monitoring units |
| Third line | Independent internal audit unit |

16. Functioning of IC in Ukraine: Sigma assessment - 2023



Value

Indicator 6.7.1. Functioning of internal control



Indicator value 2 out of 5 points

Conclusion



In general, several key aspects that support an adequate IC system are in place and functioning. Some important elements related to the functioning of IC in public institutions still need improvement



The basic mechanisms of managerial accountability in the public sector currently lag behind EU best practice. Annual plans and reports of government bodies mainly contain output-level indicators, with a small number of indicators related to final results and/or performance



Operational management decisions that could easily be delegated to lower-level managers are in most cases still made at the highest management level



In most cases, risk management is not integrated into day-to-day management processes, risk analysis is usually not included in internal planning and reporting, and risk information is not linked to management decision-making



There is no practice to implement government-specific internal rules, guidelines or procedures related to whistleblowing



17. Functioning of IA in Ukraine: Sigma assessment - 2023



Value

Indicator 6.9.1. Functioning of internal audit



Indicator value 3 out of 5 points

Conclusion



The functioning of IA in practice adheres in general to the requirements set by the legislative framework and the national internal audit standards



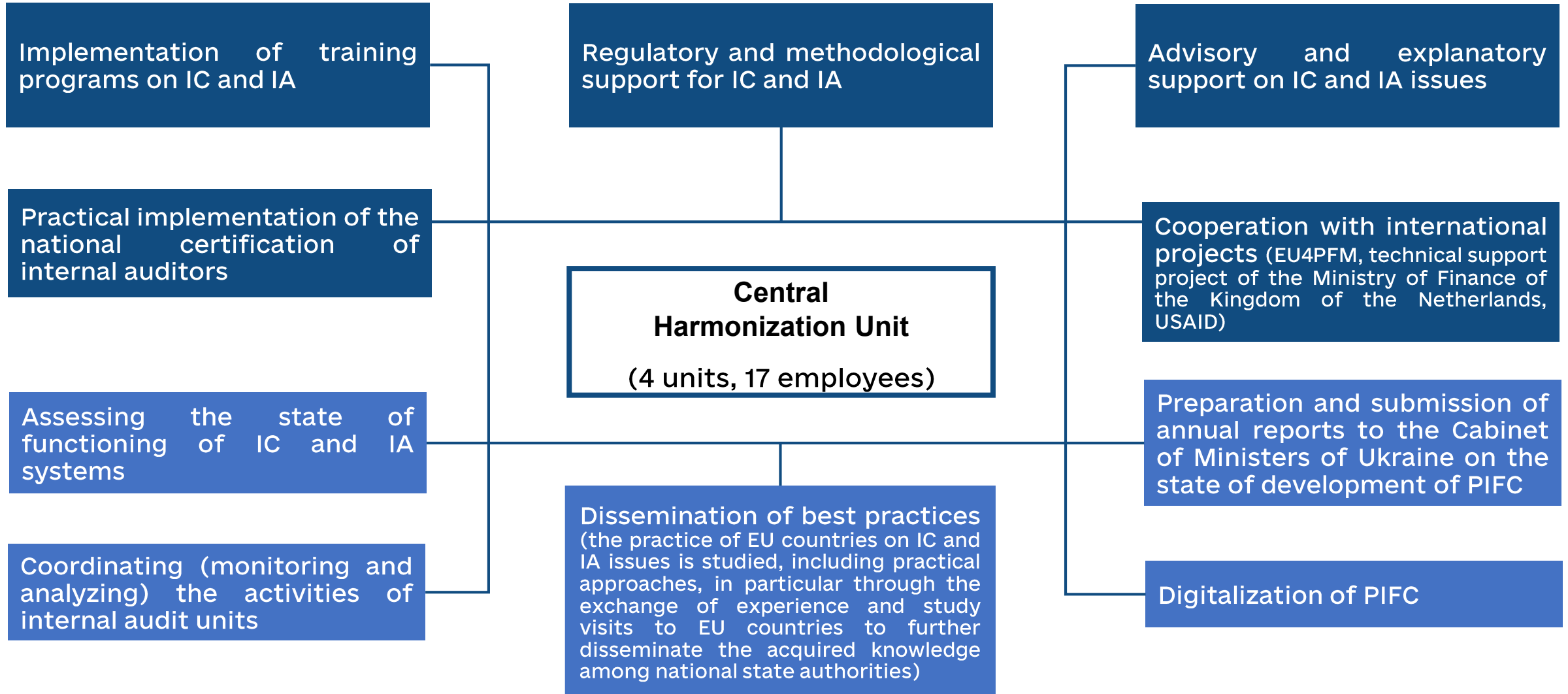
Reports are prepared according to the basic requirements, although the recommendations are not effectively linked with the audit evidence



The coverage of different types of audit shows a positive trend. However, it could be improved by adding more system-based focused audits on aspects like performance and IT, performing horizontal audits or combining different audit disciplines



18. Work of the CHU



19. Expert support for the development of PIFC



Since 2008



National Academy for Finance and
Economics
Ministry of Finance

Bilateral cooperation project with the Ministry of Finance of Ukraine and the Kingdom of the Netherlands

- Training activities on IC and IA
- Measures to integrate and/or improve the practical aspects of IC in the activities of spending units
- Expert support for the certification of internal auditors
- Pilot activities
- Training for employees of the CHU

Since 2022



Project “State-Owned Enterprises Reform Activity (SOERA) in Ukraine” funded by the USAID

- Support for the implementation of the Global Internal Audit Standards
- Conducting training events on IC and IA
- Training for employees of the CHU
- Development and support recommendations aimed on strengthening IA and IC practices, including regulatory basis, regulations and guidelines
- Support in developing procedures and forms for declaring the state of IC, IC self-assessment, Audit Committees reports

Since 2019



Public Finance Management Support Program for Ukraine EU4PFM

- Development of a PIFC portal
- Development of training programs and materials on the practical aspects of IT audit, the role of IA in the fight against corruption and fraud
- Training for employees of the CHU and internal auditors
- Development of proposals aimed at strengthening delegated managerial accountability
- Conducting reviews and preparing recommendations on the development of PIFC