

# PIFC

## Advantages and Challenges

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## *1. PIFC: Introduction*

- 1. What is Public Internal Financial Control (PIFC)?
- 2. What are the advantages and challenges of PIFC?

## *2. PIFC is a coherent system*

- 1. Managerial Accountability (Financial Management and Control Systems - FMC)
  - 2. Independent Internal Audit (IA)
  - 3. Central Harmonisation Unit (CHU)
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- Or:  $PIFC = FMC + IA + CHU$

### *3. PIFC: Managerial Accountability*

- Financial Management and Control systems (FMC): subject to internal audit
- Separation of duties (3-tier)
- Develop FMC manuals (audit trail)
- Develop objective risk management tools
- Accounting, archiving, accessibility
- Ex ante financial control, ex post financial control (inspection), project monitoring, corrective actions, follow up audit recommendations

## *4. PIFC: Independent Internal Audit*

- Based on international standards and best practice
- Assesses FMC-systems
- Adds value to management
- Functionally independent from management

## *5. PIFC: Central Harmonisation Unit(s)*

- Harmonisation and co-ordination
- Promotion and motivation of best practice
- On-the-spot verification
- Networking and publications
- Co-ordinating sustainable training facilities
- Annual PIFC Report

## *6. Inspection/Revision versus Internal Audit*

Inspection is not internal audit, but includes:

- Third party complaint investigation
- Focus on (questionable) transactions and budget rule violations
- Punishing human errors
- Ex post financial control (monitoring)

## *7. Internal Auditor*

- **Assesses FMC-systems on economy, efficiency and effectiveness**
- **Provides reports and recommendations to management**
- **Does not mix with inspection (management) activities but remains always independent**
- **Does not take responsibility for implementing improvements in FMC-systems**

## *8. PIFC in 6 practical steps*

- 1. Conceptualisation phase - involves ALL relevant stakeholders
- 2. PIFC Strategy Paper
- 3. PIFC Legislation
- 4. PIFC Set-up of institutions
- 5. PIFC Implementation
- 6. Continuous training for controllers/auditors

## *9. PIFC: Challenges and Prerequisites*

- Unequivocal commitment by Ministry of Finance and the Government
- Transparency and good Public Relations by the Ministry of Finance
- Timely establishment of a CHU with a highly independent Director
- Experienced and motivated staff in key positions
- Sustainable training facility

## *10. PIFC: benefits and expectations*

- Sound financial management of the public sector
- A win-win situation for all stakeholders: tax payers, public sector, final beneficiaries, Ministry of Finance, line ministries, State Audit Office, Parliament: democracy
- Timeframe – When will a new PIFC system work adequately?