

22PL22 - Internal Audit Quality Improvement Action Plan

Diagnostic of the Internal Audit Framework in Poland: adding value to public sector organisations and promoting the public good

The diagnostic study provides a descriptive assessment of the internal audit landscape in Poland and insights from the OECD's interviews, survey, document analysis of the internal audit stakeholders in Poland and analysis of Principle 10 "Internal Control and Risk Management" of the OECD Public Integrity Indicators. The challenges and areas for improvement identified in this study will inform the report on the development of the relevant recommendations and the Action Plan.

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1. Introduction

1. This diagnostic report takes stock of the initial steps taken to inform the implementation of the project 22PL22 “Internal Audit Quality Improvement Action Plan”, and to provide a review of the internal audit function arrangements in the public sector of Poland, taking into consideration internal audit’s intrinsic value on the functioning of public life and the governmental and local administrations.
2. The second section of the report presents the background to the internal audit function focusing on the environment and governance of the public internal audit system in Poland as well as outlining the responsibilities and capabilities of public internal audit stakeholders to support the implementation of relevant internal audit policies and practices. The third section outlines the effectiveness and efficiency of the internal audit function as well as the related roles of internal auditors and the central harmonisation function of Poland.
3. The action was funded by the European Union via the Technical Support Instrument, and implemented by the OECD, in co-operation with the Directorate-General for Structural Reform Support of the European Commission.

Methodology

4. The key findings and insights highlighted in the diagnostic report are drawn from several sources, including the results of the fact-finding interviews and discussions with key stakeholders¹ (meetings in December on-line and in January in Poland), the desk research² and analysis results of Principle 10 “Internal Control and Risk Management” of the OECD Public Integrity Indicators³. The OECD experts with the cooperation of the Polish Ministry of Finance, also conducted a survey⁴ of internal auditors in Poland to find out their perceptions, experiences and improvement ideas in their internal auditing environments. The survey, which was tailored to the Polish public sector and legal context, was conducted anonymously from January 24 to February 7, 2023, inviting all internal auditors working in the public sector to participate. 46 internal auditors from the central administration and 26 from local governments responded voluntarily. The survey results and full questionnaire are presented in the Annexes A and B. Analysis results of Principle 10 of Poland are presented in the Annex C.

¹ [Meetings within the framework of the project "Action Plan for improving the quality of internal audit". - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](#)

² [Invitation to cooperation within the project "Action Plan for improving the quality of internal audit" - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](#)

³ [OECD - Public Integrity Indicators \(oecd-public-integrity-indicators.org\)](#)

⁴ [Survey for internal auditors and service providers as part of the project "Action Plan to improve the quality of internal audit". - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](#)

Overview

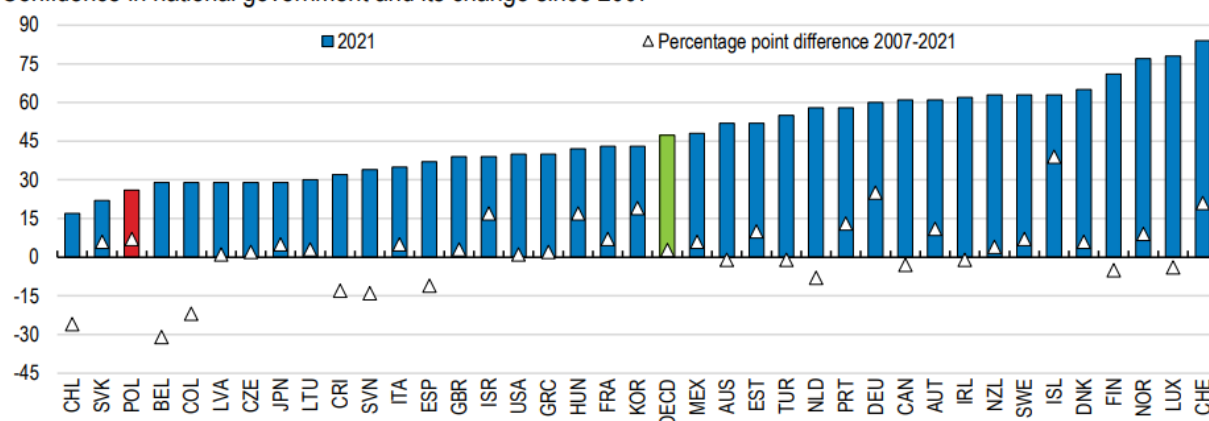
5. Good governance provides transparency, which helps instil public trust and confidence and enables leaders to exercise greater oversight of activities and to exert more effective control.⁵ Considering that the ultimate customer of all public services is the public, the internal auditors should ensure that their work add value beyond an individual organisation and ultimately to the public, addressing the interests of other stakeholders within the entire public sector context. Correspondingly, strong organisations and their governance matter for productivity, the investment climate and spending efficiency for the entire country.

6. In line with this, Poland has achieved good progress in internal audit since its' establishment in the public sector in 2002. Specifically, Poland has adopted and introduced internal audit concepts into legislation and practices throughout the public sector. The drive and energy devoted to this, particularly by the Public Internal Control and Internal Audit Coordination Unit of the Value for Money and Accounting Department of the Ministry of Finance, also responsible for the central harmonisation function for public internal audit and internal control⁶, have been considerable. In addition, the Anti-corruption Strategy, in place during 2018-20, scored well on the OECD's new Public Integrity Indicators, notably in terms of prior analysis of risks and outcome-level indicators.

7. Nevertheless, in 2021, public trust in Polish government was among the lowest in the OECD (Figure 1.1) and two main objectives, standardising and digitalising systems of asset declarations for public officials, have not been achieved and no new strategy has been put in place.⁷

Figure 1.1. Public trust in government is among the lowest in OECD

Confidence in national government and its change since 2007



Note: Share of respondents who responded "Yes" to the question "Do you have confidence in the national government?"

Source: World Gallup Poll.

StatLink  <https://stat.link/3if27o>

Source: OECD (2023), *OECD Economic Surveys: Poland 2023*

⁵ [Applying the Three Lines Model in the Public Sector \(theiia.org\)](https://theiia.org/)

⁶ [Management control and internal audit in public finance sector units - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl/)

⁷ [OECD Economic Surveys: Poland | OECD iLibrary \(oecd-ilibrary.org\)](https://oecd-ilibrary.org/); available to read on the OECDs' website

8. The insights and challenges described in the diagnostic report track a theory of change based on the internal audit governance and performance cycle and a mix of relevant practices. This theory of change relies on a multi-directional and multi-stakeholder approach — at systemic and technical levels — to drive sustained improvements in Poland’s efforts to ensure an effective internal audit function.

9. The critical role of internal audit function focuses on its added value of providing independent, objective assurance for effective governance, internal control and risk management to advance organisational goals and objectives. Moreover, internal auditors’ objective, value-based insights and evidence can help public sector organisations better manage and assess integrity risks. A contemporary view of internal audit role, which extends beyond compliance-oriented approaches, captures the broader value that the function can add to an organisation.

10. A more systemic understanding of what is effective and efficient is critical to addressing long-term and complex economic, social and environmental policy challenges. Effectively selecting the policy tools that bring value-for-money, and making strategic decisions, is not an ad hoc process and should involve consideration of evidence and analysis. However, in a resource-constrained environment, governments can face challenges in implementing a broader vision in the face of cross-governmental initiatives and varying policy priorities.⁸

11. The internal audit function has untapped potential to help governments meet these challenges and can provide reasonable assurance with critical evidence to inform what works and what needs to be improved in public organisations. However, the function has evolved over recent decades to provide a broader, systemic and more cross-cutting view of how internal control, risk management and governance processes function across an organisation.

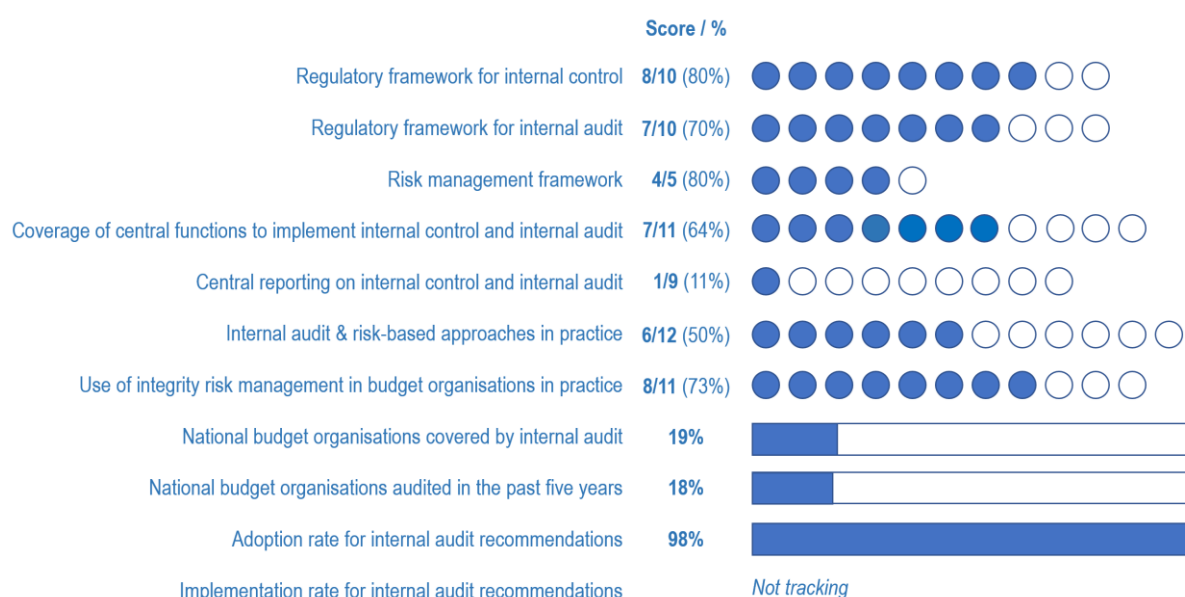
Key findings

12. Research and interviews carried out for this report showed a consensus amongst stakeholders, that although legislation have evolved aiming to follow relevant international standards, actual implementation needs to be strengthened. Furthermore, while public internal audit messages have been broadly promoted by the central harmonisation function at the Ministry of Finance, the actual implementation of internal audit function has not received value recognition, equal and harmonised footing and country-wide coverage. Despite the growing number of good internal audit initiatives at the national level, **managerial responsibility and accountability** is still perceived to be one of the major obstacles to obtain quality internal audit services. Furthermore, more in-depth and comprehensive **central monitoring and support** actions are necessary to address systemic and institutional weaknesses that could facilitate internal audit function and internal control practices in the first place. Countries face the challenge to move from a merely reactive “culture of cases or compliance based” to a proactive “culture of integrity towards systemic effectiveness and efficiency”, defined as a culture where there is a consistent adherence for upholding and prioritising the public interest to have a reasonable assurance that add value to public sector organisations and promote the public good.

⁸ [Supreme Audit Institutions and Good Governance: Oversight, Insight and Foresight | OECD Public Governance Reviews | OECD iLibrary \(oecd-ilibrary.org\)](#); available to read on the OECDs’ website

13. The OECD Recommendation on Public Integrity⁹ provides policy makers with a vision for a public integrity strategy, shifting the focus from ad hoc integrity policies to a context dependent, behavioural, risk-based approach with an emphasis on cultivating a culture of integrity across the whole of society. Accordingly, the Public Integrity Indicators (PII) apply a mixed methods approach, drawing on both administrative data and big data provided directly by governments and surveys to measure key aspects of the implementation of the Recommendation. Internal control and internal audit systems of Poland were assessed in 2023 on Principle 10 “Internal Control and Risk Management” (Figure 1.2).

Figure 1.2. Effectiveness of internal control and internal audit in Poland for safeguarding public integrity (2023)



Source: OECD Public Integrity Indicators (*non-published data*)

14. The research and analysis provide a diagnosis of the public internal audit in Poland recognising the key findings, insights and gaps that raise the following considerations for Poland looking forward:

Building managerial awareness: the roles and responsibilities of control and audit functions are not clear for managers in many public organisations, i.e., the prevailing misunderstanding and confusion about different control responsibilities, the internal audit role, inspection functions, the roles of assurance functions, including the value of internal control and internal audit. This lack of clarity in the legal framework further leads to misunderstandings when interpreting the laws and methodologies and poor implementation of internal control and internal audit responsibilities.

Enlarging internal audit coverage: though every public finance sector entity must implement internal control, not every public finance sector entity has to carry out an internal audit - only 19% of total national budget organisations are covered by internal audit function and 18% were audited in the past five years. This doesn't allow to establish a comprehensive and harmonised country-wide assurance

⁹ [OECD Recommendation on Public Integrity - OECD](#); available to read on the OECDs' website

framework, which will ensure a systematic, structured and risk-based approach, and evaluation and contribution to improving the organisation's governance, risk management and control processes.

Establishing comprehensive country-wide reporting mechanism: public organisations (central and local) are not required by the regulatory framework to report to the central harmonisation function on the implementation of internal control activities, thus limiting central monitoring, development and methodological supporting role on internal control, and proper managerial accountability developments in organisations. Accordingly, the central harmonisation function doesn't possess actual and relevant data on the implementation of the internal control and internal audit policies and couldn't be capable to ensure proper and timely feedback on key risks and to support targeted and harmonised country-wide developments.

Ensuring internal audit independence: in many organisations internal audit function is combined with other management or control functions: e.g., data protection, internal control, inspection. Internal audit function should be completely separated from internal control duties in legislation and in practice, in order to be able to provide independent and objective activity supporting an organisation in the implementation of objectives and engagements through a systematic assessment of internal control and consulting services.

Optimising internal audit resources and considering establishing minimum internal audit staffing requirements: the current legal framework doesn't specify the size of internal audit units (minimum two persons per unit), and in practice small size internal audit units dominate (just only about 20% with more than one auditor at the central government level). The number of internal auditors is perceived as insufficient. Small organisations usually hire a part-time auditor or contract with a service provider to fulfil internal audit duties. The small internal audit units are not able to ensure the effectiveness of internal auditing and to meet necessary independence and objectivity requirements. The Ministry of Finance could consider better grouping of internal audit staff resources with a more centralised approach decisions and the general pattern of internal audit implementation needs to be evaluated with a view to providing the more effective, efficient and economical use of resources, better internal audit coverage and a more rational set-up of internal audit units with no less than two internal auditors. It is also difficult for a small internal audit unit to conduct risk assessments and provide independent assurance over the internal control system across the organisation. The Ministry of Finance could consider establishing a central facility staffed with IT-audit experts who can be called upon to give assurance on IT systems and ensuring availability of necessary training tools.

Focusing on performance audit and systemic assessments of internal control: though legislation describes the goal of internal audit as systematic assessment of the adequacy, effectiveness and efficiency of internal control, in practice these assessments are performed partially. Internal audit is focused on compliance audit and thus is not comprehensively supporting organisations in building managerial accountability and establishing and maintaining effective internal control systems and risk management structures and processes. The Ministry of Finance could also consider leveraging existing tools (e.g., a delegated audit mechanism) to support a quicker introduction of the performance and systems-based auditing that could enable internal auditors to provide assurance over the internal control systems in an audited organisation.

Harmonising key internal audit documents (charters, manuals): the regulatory framework doesn't require the internal audit unit to develop an internal audit activity manual based on a standard methodology approved by the central harmonisation function, accordingly, audit charters, manuals, working documents differs in practice quite substantially. A significant number of entities do not appear to have strategic audit plans. Documentation standards need to be examined and harmonised, ensuring the consistent use of working papers and quality control. There are also differences in presenting risk assessment results, formulating audit plans, gathering evidence and establishing conclusions.

Considering the establishment of the national certification scheme: the central harmonisation function doesn't coordinate a certification system to ensure the inclusion of new internal audit staff and their continuous professional education. Moreover, the central harmonisation function doesn't possess information on how many public officials performing internal audit functions have obtained a national or international certificate for internal audit. Hiring managers face difficulties in recruiting qualified internal auditors due to strict legislative requirements. There are no public sector central initiatives to address the current shortage of internal auditors and to ensure necessary capabilities to meet the growing expectations from the public sector and the citizens. A customised training modules could be developed in co-operation with responsible general public service training facilitators, the Supreme Audit Institution and local professional chambers.

Implementing of internal audit quality assurance requirements: quality self-assessment or external quality assessments are not performed regularly according to the regulations and the central harmonisation function doesn't monitor and coordinate the implementation of these requirements.

Ensuring an adequate quality level for internal audit service providers: small organisations frequently rely on service providers, that could result in poor quality assurance, lower adding value, less effective service and poor implementation of internal audit goals and objectives. There are about 60% of local government units in which audit is run by a service provider. According to the Ministry of Finance's annual benchmarking report, entities with service providers show a lower-than-average rate of self-assessments. In addition, in local government units audited by the service provider, the external assessment was carried out in only 6.0% of units (45 out of 750), by 20% less than in case of local government units where the internal audit is conducted by an auditor employed in the unit.

Strengthening audit committee's oversight role: an insufficient involvement of the audit committee in supporting the internal audit function, determining priorities in the formulation of the audit strategy and annual audit plan, and in defining significant risks and internal control weaknesses within the organisation. The audit committees are established only in ministries. Majority of audit committee members are internal. The committees are not involved in oversight of the financial and performance reporting responsibilities, the system of internal control, comprehensiveness and reliability of assurances on risk management and the control environment and the performance management framework.

Monitoring the quality of the internal control and internal audit: the central harmonisation function hasn't been conducting a regular government-wide review on the functioning of the internal control and internal audit systems. It doesn't possess full data and information about the internal audit function implementation, e.g., the exact number of local government units conducting internal audits is not known. This is because local government units are not required to provide reports on their audit activities to the central harmonisation function of the Ministry of Finance. The central harmonisation function prepares a benchmarking report based on annual internal audit reports, nevertheless, it is not considered as an assessment, which could be based on a centrally developed assessment criteria providing necessary conclusions and key information on auditing results, and a summary of self-assessments of internal control and risk management activities. In this context, the role of coordination, analysis, monitoring and quality assurance by the central harmonisation function become critical for necessary and timely internal control and internal audit developments.

Recommendations and the Action Plan

15. According to the project¹⁰, the diagnostic report will serve as a baseline for recommendations for the Action Plan: the report will facilitate the development of recommendations for the Action Plan which will set out the time-bound objectives and priorities of the Ministry of Finance for the further improvement of the internal audit system. The existing references to (hooks for) recommendations provided in the diagnosis will be further detailed in the Output 3 “Report to inform the development of the Action Plan”.

16. The OECD together with the Ministry of Finance will continue in-depth discussions regarding the framework of the Action Plan and to outline an information from the diagnostic report, which is essential for the development of the plan and to streamline the quality of the internal audit function. This should include actionable measures, responsible authorities, relevant timelines and indicators for its measurement.

17. Many of the OECD insights, if implemented, would represent some complex and significant changes to the current working practices and procedures. The recommendations, that will be established in the following Action Plan, will assist senior management in deciding upon priorities to take forward the development and enhancement of the internal audit system. It may also require some amendments to existing laws and regulations, sufficient investment of resources and more understanding of the management of the issues involved. These changes cannot all be made overnight. The significance of the adoption and implementation of the Action Plan should be seen in this context. Thus, close follow up by Poland would be of huge importance, to ensure the use of project’s results.

¹⁰ [Launch of the project "Action Plan to improve the quality of internal audit" - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](http://www.gov.pl)

2. Internal Audit Environment and Governance

Mapping public internal audit system in Poland

18. The roots of internal audit in Poland go back to preparations for integration with the European Union. As part of the negotiated Chapter 28 "Financial Control" Poland was required to regulate the internal financial control and internal audit. To rationalise public spending, the correct use of EU funds and to prevent fraud, it became necessary to implement systemic and harmonised solutions ensuring the correctness and efficiency of the processes of collecting and spending public funds. The essence and the primary role of the internal audit function has been to adequately safeguard and make better use of public funds¹¹.

19. Internal audit was introduced into the Polish legal system as a result of the amendment to the Act of 26 November 1998 on Public Finances, which entered into force on 1 January 2002.¹² In order to implement a new management tool in the structures of public finance sector organisations, the law defined the framework for the functioning of organisationally and functionally independent internal audit units. To this day, it is the Public Finance Act that defines internal audit, the principles of internal audit organisation, the basic principles of its conduct, as well as the qualification requirements that must be met by persons conducting internal audit. Currently, the obligation to conduct internal audit applies to about 2,600 public finance sector units, of which about 640 are government subsector units.

20. Poland aims to deliver the internal audit function following the international (Institute of Internal Auditors (IIA))¹³ standards and the European Union good practices, as well as the internal control function following international COSO¹⁴ standards. Further continuous development of internal audit and internal control in the public sector is a never-ending process that needs constant support, monitoring, hard work and vigilance.

21. The Institute of Internal Auditors defines internal audit as an "independent, objective, assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control

¹¹ The scope of the project doesn't comprise audit of the management of EU funds as described in separate regulations (The Act on the National Revenue Administration).

¹² [Legal acts - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](http://www.gov.pl)

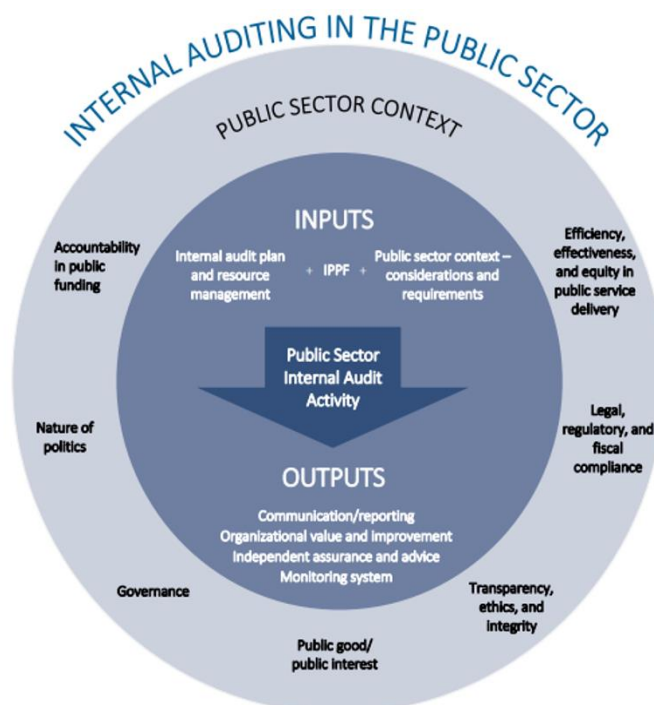
¹³ [Standards \(theiia.org\)](http://theiia.org)

¹⁴ [Guidance on Internal Control \(coso.org\)](http://coso.org)

and governance processes.”¹⁵ Similarly, the Public Finance Act of Poland defines internal audit “as an independent and objective activity whose goal is to support the Minister managing the branch or the head of an entity in the implementation of objectives and engagements through a systematic assessment of internal control and consulting services.”¹⁶

22. This definition recognises the role which internal audit has to play in any well governed organisation. Modern internal audit is positioned to promote good practice and act in a positive proactive way without the negative aspects associated with a “control” type of approach. Effective internal audit units are those that have an added value role in the running of an organisation through focussing on governance, control and risk management processes (Figure 2.1).¹⁷

Figure 2.1. Internal auditing in the public sector context



Source: The Institute of Internal Auditors, 2022

23. More specifically, internal audit is meant to assure stakeholders that the systems and processes operating within an organisation are a) providing reliable financial and operating information, b) effective and efficiently managed, c) in compliance with laws, regulations and contracts, and d) concerned with the safeguarding of the organisation’s assets. Based on this definition, it has been observed that a growing number of countries and organisations

¹⁵ [Definition of Internal Auditing \(theiia.org\)](https://theiia.org/)

¹⁶ [Legal acts - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl)

¹⁷ Building an Effective Internal Audit Activity in the Public Sector (theiia.org); a limited access to this document

globally are embracing the concept of internal audit as a necessary element for effective governance and internal control.

24. Pursuant to the Article 63 of the Act on Public Finance of 30 June 2005, international internal audit standards were adopted in Poland's internal audit regulatory framework in 2006. The International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA)¹⁸ were translated into Polish language and adopted as the internal audit standards for public finance sector entities in Poland by the announcement of the Minister of Finance on 12 December 2016.¹⁹ The standards consist of attribute standards and operating standards for internal auditing. Accordingly, the regulatory framework set the IIA standards-based approach for the internal audit function across the public sector.

25. Polish internal audit framework pursues organisations to identify structures and processes that assist the achievement of objectives and facilitate effective governance and internal control according to the IIA's Three Lines Model²⁰ (Figure 2.2). Following the model, management should be responsible for identifying and managing risks, and each employee contributes to successful risk management within an entity. Alongside risk management functions, managers are responsible for the day-to-day managing of fraud and corruption risks – which includes ensuring that internal controls are in place and functioning – and more generally, for preventing and detecting fraud and corruption risks. The third line represents internal audit function that provide independent assurance that internal control and risk management processes are effective. The Governing body is the highest decision-making authority (i.e. a head of an organisation or a governing board where applicable), which provides an oversight within an organisation and acts as a highest decision making authority.²¹

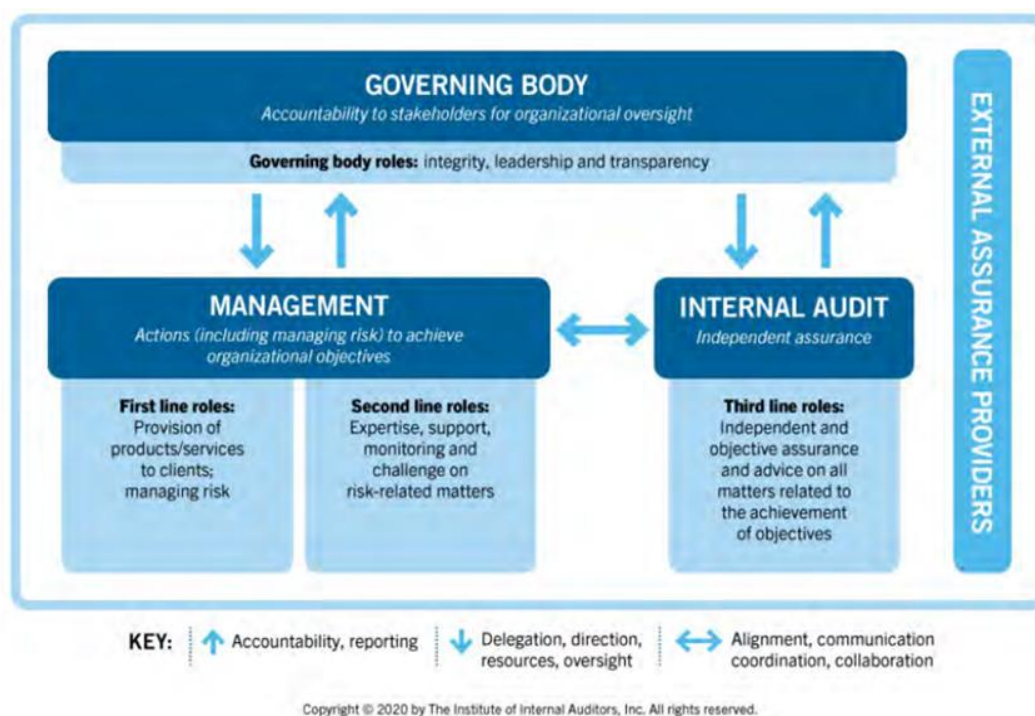
¹⁸ [Standards \(theiia.org\)](https://theiia.org/)

¹⁹ [Standards and guidelines - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl)

²⁰ [Applying the Three Lines Model in the Public Sector \(theiia.org\)](https://theiia.org/)

²¹ [OECD Public Integrity Handbook | OECD iLibrary \(oecd-ilibrary.org\)](https://oecd-ilibrary.org/); available to read on the OECDs' website

Figure 2.2. The IIA's Three Lines Model



Source: The Institute of Internal Auditors, 2020

26. According to the model, the internal auditing is the means by which the head of public organisation receives an independent assurance that internal controls are achieving their objectives and that risks are being properly managed. Internal audit work includes identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems and maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

27. Nevertheless, internal audit relies on a range of actors at the government-wide, institutional and individual levels for effective implementation. For instance, standard-setters for public sector organisations can ensure that government-wide internal control and risk management policies are coherent and harmonised.²²

28. The public internal audit framework, as presented below, in Poland covers the central and local sectors and is mandated to the entire public finance sector (Figure 2.3). It covers the entire range of systems, processes, procedures and activities of the public organisation and multiple stakeholders with diverse roles and responsibilities.

²² [OECD Public Integrity Handbook | OECD iLibrary \(oecd-ilibrary.org\)](#); available to read on the OECDs' website

Figure 2.3. Mapping internal audit stakeholders of Poland

PUBLIC INTERNAL AUDIT SYSTEM STAKEHOLDERS		PRIMARY ROLE
Management – operational functions		1 st line / auditee
Management – central monitoring, inspection functions, internal control & risk management		2 nd line / auditee / cooperation
Internal Audit Function (IAF) - ministry		3 rd line assurance / Internal Audit (IA) assignments
IAF – central gov. organisation		3 rd line assurance / IA assignments
IAF - local gov. organisation		3 rd line assurance / IA assignments
Supreme Audit Institution		4 th line (external) assurance, audit of the internal control and audit systems, cooperation with IA
Central Harmonisation Function (Ministry of Finance)		5 th line (internal control and internal audit framework compliance and quality) assurance – central guidance on IA policy, methodology, analysis, networking, training coordination, quality assessment of internal audit
Executive Management		IA 1 st reporting line - support in establishing direction and administrative interface. IA 1 st reporting line if no AC established.
Audit Committees		IA 2 nd reporting line - strategic direction, reinforcement and accountability, oversight
Local Government Representatives: Municipality Associations / National Council of the Regional Chambers of Audit		IA regional strategic direction, reinforcement, accountability and oversight
IAF external quality assessment function		IA quality assurance
Professional Internal Audit Association: IIA - Poland chapter		IA professional networking, capacity building and advocacy
Professional Associations: ISACA, Association of IA of Higher Education Institutions, Internal Control Institute		IA thematic professional networking, capacity building and advocacy

Source: Ministry of Finance, Poland, 2023. OECD, 2023.

Regulatory framework

29. The Act on Public Finance, as the primary law on internal control and internal audit, sets forth the basic responsibilities for different actors within the internal control system and

provides a fundamental foundation for the existing internal control and internal audit legal framework in the state (Figure 2.4).

Figure 2.4. Mapping the legal frameworks of internal audit in Poland

No.	Title of the legal document	Adopted by	Adoption date
1.	Act (Law) on Public Finance	Parliament	27 August 2009
2.	Work regulations of the Council of Ministers	Government	29 October 2013
3.	Communication No 23 on Standards of internal control for the public finance sector	Ministry of Finance	16 December 2009
4.	Regulation of the Minister of Finance on the Audit Committee	Ministry of Finance	29 December 2009
5.	Guidelines on the internal control self-assessment	Ministry of Finance	16 February 2011
6.	Guideline on planning and managing risk	Ministry of Finance	6 December 2012
7.	Regulation of the Minister of Finance on internal audit and information on audit work and results	Ministry of Finance	4 September, 2015
8.	Standards of internal audit for the public finance sector (the IIA Standards have been translated and adopted)	Ministry of Finance	12 December 2016
9.	Template for information on the performance of internal audit tasks	Ministry of Finance	7 November 2017

Source: Ministry of Finance, Poland, 2023; OECD, 2023.

30. The Act defines objectives for internal audit (Article 272), internal audit obligation (Article 274), internal audit standards (Article 273), implementation of internal audit task (Articles 275, 283, 285), internal audit unit and auditors (Articles 277, 286, 291), independence of internal audit units (Articles 280, 281, 282, 287), audit committee (Articles 288, 289, 290), and co-ordination function of Ministry of Finance (Article 292, 293, 294, 295, 296).²³

31. The Act on Public Finance (Article 68) also provides a legal framework for internal control of the public finance entities in Poland by defining the relevant responsibilities and the purpose of internal control, in particular:

- compliance of the activity with the law and internal procedures,
- effectiveness and efficiency of operation,
- reliability of the reports,
- safeguarding of assets,
- compliance with and promotion of the principles of ethical conduct,
- efficiency and effectiveness of information flow,
- risk management.

32. As a good practice, the introduction of the public internal control system in Poland was based on the principles for introduction of the Public Internal Financial Control (PIFC) system in the Polish public administration (a strategy paper) approved by the Committee for

²³ [Legal acts - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl/web/legal-acts)

European Integration in December 2001²⁴. In the environments where the internal control and audit policies require enhancements and further developments across the public sector covering different levels of governance, the development and regular update of the governmental internal control and internal audit strategy, considering changes in national environment and international standards and including wide consultation with stakeholders, is a good precondition.²⁵

33. To ensure the functioning of adequate, effective and efficient internal control, the Act on Public Finance places internal control responsibilities in consideration of the government's hierarchy structures. The act also requires Ministers to draw up and implement annual activity plans for the organisations' objectives, reports on the implementation of the activity plan and the declaration on the state of internal control.

34. Communication No. 23 of the Minister of Finance on standards of internal control for the public finance sector of 16 December 2009, pursuant to the Article 69 (3) of the Act on Public Finance, defines the basic requirements relating to internal control in the public finance sector. The standards of internal control define internal control elements and responsibilities for establishing effective control environment, objectives and risk management, control mechanisms, information and communication system, and monitoring and evaluation processes. The purpose of the standards is to promote the implementation of a coherent and uniform model of internal control in the public finance sector in compliance with international standards in this area, taking into account specific tasks of the entity implementing it and the conditions in which the entity operates.

35. The Act on Public Finance specifies the procedures of carrying out internal audit and providing information on the internal audit work and results. This regulation includes provisions for the authorisation of internal audit tasks, audit documentation, annual audit planning and reporting, planning, conducting and reporting audit engagements, commissioned (delegated) internal audit and assessment of the performance of an internal audit.

36. According to the IIA, audits required by the legislation should be included in the internal audit charter, and the head of the internal audit activity and audit committee should ensure the internal audit activity adheres to any other relevant laws, rules or regulations.²⁶ Most OECD countries, including Poland, have necessary legislation requiring entities in the public sector to implement and monitor internal control and risk management policies, as shown in Figure 2.5. However, it is less common that countries have developed the necessary central functions to ensure coherence, methodological harmonisation, quality assurance and necessary oversight regarding the adequate implementation of these requirements throughout the public institutions.²⁷²⁸

²⁴ [Compendium of the public internal control systems in the EU Member States 2014 \(europa.eu\)](http://europa.eu)

²⁵ European Commission (2006), *Welcome to the world of PIFC. Public Internal Financial Control*.

²⁶ Building an Effective Internal Audit Activity in the Public Sector (theiia.org); a limited access to this document

²⁷ [Government at a Glance 2017 | Government at a Glance | OECD iLibrary \(oecd-ilibrary.org\)](http://oecd-ilibrary.org)

²⁸ [OECD Public Integrity Handbook | OECD iLibrary \(oecd-ilibrary.org\)](http://oecd-ilibrary.org); available to read on the OECDs' website

Figure 2.5. Countries with legal requirements for internal control and risk management policies

	Yes, for internal control policies	Yes, for risk management policies
Australia	•	
Austria	•	•
Belgium	•	•
Canada	•	•
Chile	•	•
Czech Republic	•	•
Estonia	•	•
Finland	•	•
France	•	•
Germany	•	•
Greece	•	•
Hungary	•	•
Iceland		
Ireland		
Italy	•	•
Japan	•	
Korea	•	•
Latvia	•	
Mexico	•	•
Netherlands	•	•
New Zealand	•	•
Norway		
Poland	•	•
Portugal	•	
Slovak Republic	•	•
Slovenia	•	•
Spain	•	•
Sweden		
Switzerland	•	•
United Kingdom		
United States	•	•
Argentina		
Brazil	•	•
Colombia (Member from 2020)	•	•
Costa Rica (Member from 2021)	•	•
Lithuania (Member from 2018)	•	•
Peru	•	•

Source: OECD (2017), *Government at a Glance 2017*

37. To be effectively implemented, internal control and risk management policies rely on many actors at governmental, institutional and individual levels. Clearly defining the role of each actor is therefore key. Box 2.1 provides the example of the primary legal framework of

Lithuania.²⁹ At the government level, public sector standards bodies, for example, ensure that government-wide internal control and risk management policies are consistent and harmonised. At the institutional level, internal control and risk management policies and processes provide management with reasonable assurance that the organisation is achieving its integrity objectives and managing its risks effectively. Finally, at the individual level, many standards call for the personal commitment of public officials to integrity and compliance with codes of conduct.³⁰

Box 2.1. Key responsibilities in the Lithuanian Internal Control and Internal Audit Framework

Participants of internal control and their remit (Article 7)

1. Participants of internal control of a public legal person shall be the head of the public legal person, the staff supervising the implementation of internal control and internal auditors.
2. The head of a public legal person, acting in the area of internal control, shall:
 - 1) Ensure the provision in the public legal person of internal control including the elements referred to in the Article 6 “Elements of Internal Control” of this Law and meeting other requirements set for internal control in this Law, the implementation and improvement of such control.
 - 2) Establish the policy of internal control of the public legal person in compliance with the provisions of this Law and its implementing legislation.
 - 3) Submit to the Ministry of Finance, in accordance with the procedure established by the Minister of Finance, the information on the implementation of internal control in the public legal person, including the public legal persons subordinate and/or accountable thereto.
3. The staff of a public legal person carrying out the regular activities of management and supervision of areas of activities of the public legal person according to the assigned functions shall supervise the implementation of internal control in the public legal person and its adherence with the internal control policy established by the head of the public legal person.
4. Internal auditors shall assess internal control in a public legal person and make recommendations to the head of the public legal person on improvement of internal control, provide consultations to the head of the public legal person and heads of administrative units of the public legal person and/or of the public legal persons subordinate and/or accountable thereto on issues of internal control.

Remit of the Ministry of Finance in the areas of internal control and internal audit (Article 3)

In forming state policy in the areas of internal control and internal audit, organising, coordinating and controlling its implementation, the Ministry of Finance shall:

- 1) Draft legal acts regulating internal control and internal audit of public legal persons having regard to international good practices of internal control and internal audit.

²⁹ IX-1253 Republic of Lithuania Law on Internal Control and Internal Audit (<https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/e5725040e37e11ea869e86e74cfea363?jfwid=bkaxmyl6>)

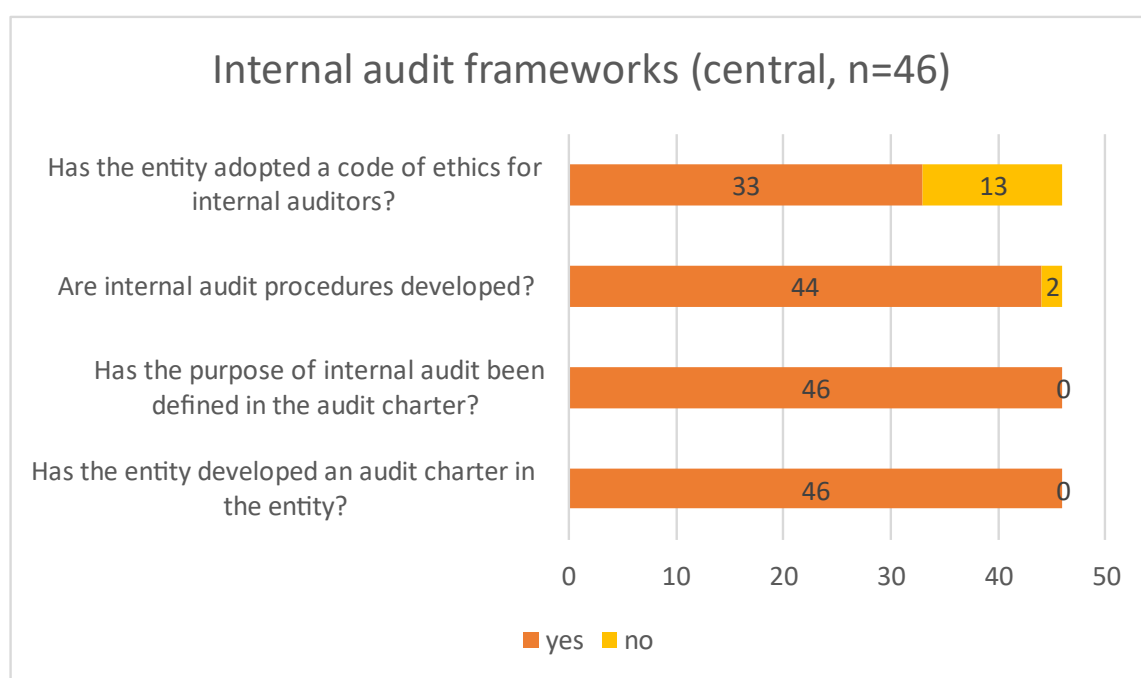
³⁰ [OECD Public Integrity Handbook | OECD iLibrary \(oecd-ilibrary.org\)](https://www.oecd-ilibrary.org/public-integrity-handbook); available to read on the OECDs' website

- 2) Perform methodological management functions in the areas of internal control and internal audit.
- 3) Analyse activities of internal audit services and issue recommendations on the improvement thereof.
- 4) Ensure that an external assessment of the activities of internal audit services is conducted at least once every five years in accordance with the procedure established by the Minister of Finance of the Republic of Lithuania.

Source: Law on Internal Control and Internal Audit, Republic of Lithuania, 2002

38. Poland has pursued to follow the IIA and COSO standards in its national policies and legislative frameworks, including the principles on the performance of the internal audit and control systems. The internal audit frameworks at the level of individual public institutions are generally well established. In the survey conducted by the OECD and the Ministry of Finance of Poland, most respondents noted they had an audit charter and audit procedures in place (see Figure 2.6).

Figure 2.6. Internal audit frameworks at individual entity level



39. It is very important to deliver internal audit work that is helpful and useful to management. Nevertheless, according to the interviews with different stakeholders, the roles and responsibilities of different control and audit functions are still not clear for managers in many public organisations. The stakeholders have noted the prevailing misunderstanding in public organisations and confusion about the different control and audit concepts (e.g. management control (which is mostly used in legal documents of Poland instead of internal control) versus internal control, internal audit versus inspection), the roles of assurance functions, including the value of internal control and internal audit. For example, it was outlined that the current regulation on declarations “provides that internal control is part of management control”. This lack of clarity in the legal framework may further lead to

misunderstandings when interpreting the laws and methodologies and poor implementation of internal control and internal audit responsibilities.

40. The PII analysis results of the Principle 10 of Poland demonstrate that majority of criteria for indicator “Regulatory framework for internal audit” are fulfilled for Poland. Nevertheless, the results present that the framework doesn’t specify the size of internal audit units (minimum two persons per unit), the standard of conduct and ethical behaviour are not published and applicable for internal auditors, and the regulatory framework doesn’t require the internal audit unit to develop an internal audit activity manual based on a standard methodology approved by the central harmonisation function. Accordingly, these criteria are not fulfilled. Moreover, there are other indicators of the Principle 10, which are related to the regulatory framework (e.g. regarding the internal control and internal audit reporting, availability of information on implementation of internal audit recommendations, monitoring role of the central harmonisation function) as described below in other sections.

41. The Ministry of Finance could consider a review of current legislation aiming to harmonise and clarify the relevant definitions and to distinguish the assurance roles and corresponding responsibilities. The Ministry of Finance could also consider the need to educate managers at all levels, on the responsibilities regarding the establishment and development of the internal control systems and procedures, the role and usefulness of modern internal audit, and how to get the best out of this valuable assurance function.

42. The level of knowledge and expertise of internal auditors have shown significant progress but needs to be developed although at a pace of change which is consistent with effectively absorbing and consolidating any new methodologies. Poland has the opportunity to continue its good progress to develop an internal audit function, which can capably serve the country well into the future. Poland has a solid platform of legislation with a good differentiation between the roles of the internal audit units and the general role of the Ministry of Finance for standard setting and a lead on professional matters.

Internal audit scope

43. According to the internal audit standards for public finance sector entities³¹, the scope of internal activities, internal audit's purpose, powers and responsibilities must be formally defined in the internal audit charter. According to the Act on Public Finance, the scope of the internal audit covers the examination and assessment of the adequacy, effectiveness and efficiency of internal control.

44. The internal audit charter, tailored to a particular organisation, provides the internal audit function with a formal mandate for its work. The scope of an audit covers what shall be audited and should describe the areas, processes, activities, or systems within the audited entity that will be the subject of the audit engagements and to which the audit conclusion will apply.³² Each ministry in Poland has an internal audit charter established in a form of the Minister's order.

45. Nevertheless, the internal audit charters of ministries and agencies differs quite substantially. For instance, the internal audit charter of the Chancellery of the Prime Minister does not have specified provisions on the scope of internal audit and defines internal audit

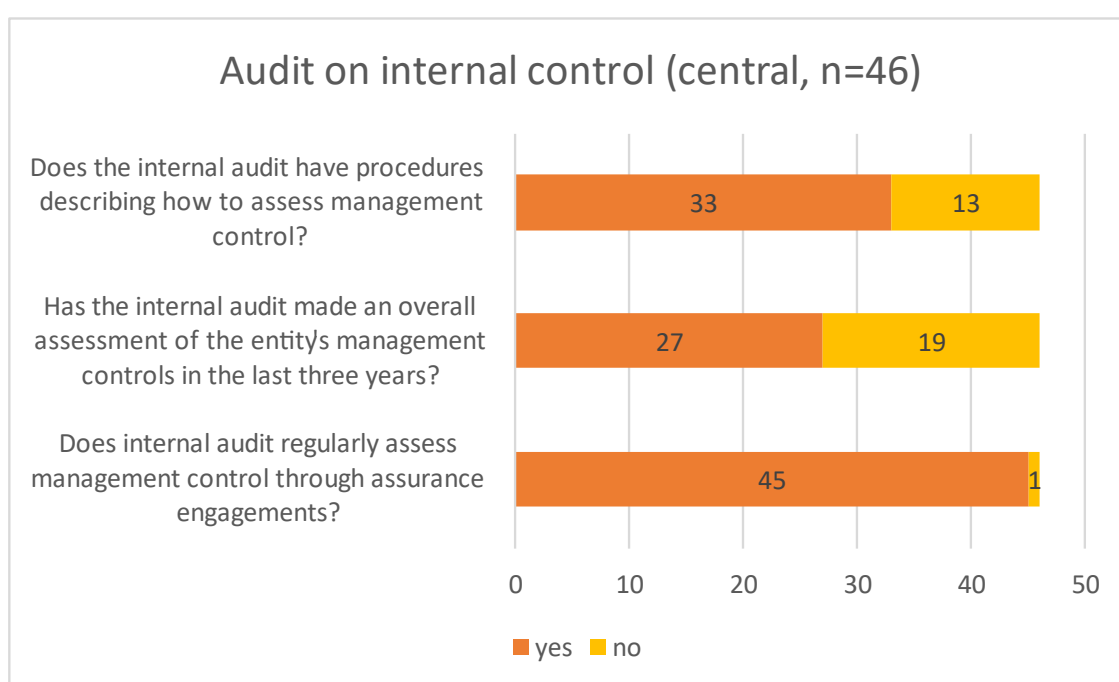
³¹ [Standards and guidelines - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl)

³² [Internal Audit Manual for the Greek Public Administration | OECD Public Governance Reviews | OECD iLibrary \(oecd-ilibrary.org\)](https://oecd-ilibrary.org)

as assurance and consulting activities in all legal areas of the organisation and includes carrying out checking activities. Also, during the interviews some Poland stakeholders have noted that internal audit activities are quite frequently involved in performing various control, inspection and risk management duties, as regulated by their internal audit charters.

46. The stakeholders during the interviews with the OECD have pointed out that scope of internal auditing is frequently limited by the established internal audit charters and the lack of audit personnel. The Act on Public Finance describes the goal of internal audit as systematic assessment of the adequacy and effectiveness of internal control, but, according to the survey, in practice these assessments are performed partially - only about 60% of respondents said they had conducted an overall evaluation of internal control over the past three years (Figure 2.7).

Figure 2.7. Internal audit coverage on internal control



47. The IIA emphasises that the internal audit charter provides the organisation a blueprint for how internal audit will operate and helps the governing body to clearly signal the value it places on internal audit's independence and that it is vital to internal audit's success and should be reviewed annually by the governing body.³³ Taking this into account and to ensure a harmonised approach throughout the public sector, some countries ensure that a model charter is developed by the central harmonisation function.³⁴ For example, Lithuania defined by the law that the activities of an internal audit service shall be governed by the regulations (charter) of the internal audit service approved by the head of a public

³³ [pp-the-internal-audit-charter.pdf \(theiia.org\)](https://theiia.org/pp-the-internal-audit-charter.pdf)

³⁴ [Compendium of the public internal control systems in the EU Member States 2014 \(europa.eu\)](https://europa.eu/commission/press-room/detail/2014/11/14-compendium-of-the-public-internal-control-systems-in-the-eu-member-states-2014)

legal person, which shall be prepared in compliance with the model regulations of an internal audit service approved by the Government.³⁵

48. Considering the importance of the internal audit charter to the internal audit activity and its performance, the Ministry of Finance could ensure that the existing internal audit charters are in line with the relevant regulations, the guidance provided by the central harmonisation function and specific needs and characteristics of an organisation.

Internal audit organisation

49. Though every public finance sector entity must implement internal control, not every public finance sector entity has to carry out an internal audit. The PII analysis results of the Principle 10 of Poland indicate that only 19% of total national budget organisations are covered by internal audit function and 18% were audited in the past five years. Public organisations included in the internal audit mandate are defined by the internal audit charter or regulation (audit universe), which legally represent a range of potential audit activities to be carried out by the internal audit function, consisting of auditable entities, processes, systems and activities.

50. In Poland, conducting internal audit is an obligation for entities which are specified in the Article 274 of the Act on Public Finance - internal audit should be carried out in:

- entities listed by their name (e.g., the Chancellery of the Prime Minister, Ministries)
- financial threshold – 40 million PLN (but only in):
 - state budgetary units,
 - public higher education institutions,
 - independent public health care institutions which were not established by local government units,
 - executive agencies,
 - state special purpose funds,
 - local government units.
- decision of the head of an entity – every public finance sector entity,
- decision of a Minister (including Prime Minister) – within their subservient branches.

51. According to the Article 9 of the Act on Public Finance, exemptions from the public finance sector include enterprises, research institutes, institutes operating within the Łukasiewicz Research Network, banks and commercial law companies.

52. There are approximately 2,500 internal auditors in Poland throughout around 2,600 central and local public entities. The exact and up-to-date number of central government entities that must carry out internal audit function in accordance with the Article 274 of the Act of the Public Finance is not known (a complete list of entities is being prepared). However, pursuant to the Article 292 of the Act of Public Finance, the tasks of the Ministry of Finance include an assessment of internal audit, with the exception of the local government units and the entities with autonomous budgets (e.g., Chancellery of Sejm, Supreme Audit Office, courts). According to it, every year the central harmonisation function

³⁵ IX-1253 Republic of Lithuania Law on Internal Control and Internal Audit (<https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/e5725040e37e11ea869e86e74cfea363?jfwid=bkaxmyl6>)

at the Ministry of Finance prepares a benchmarking report based on annual reports “Information on the performance of internal audit tasks”.³⁶ Nevertheless, it is not considered as an assessment, which could be based on a centrally developed assessment criteria providing necessary conclusions. During 2014-2017 the central harmonisation function had been producing assessments of internal audit function in central government units on the basis of internal audit annual reports.³⁷

53. In 2022, the central harmonisation function collected information from 582 government administration units and prepared the internal audit benchmarking report 2021.³⁸ Central government administrations with internal audit duties include ministries, executive agencies, government-owned hospitals, universities, funds, courts and other budgetary units. In terms of spending, 40% of them had more than PLN 200 million budget, and institutions with less than PLN 25 million made up 6%. Looking at the size according to the number of employees, it is as follows: 25% organisations with 1,200 or more employees, 17% - from 600 to 1200 employees, 26% - from 300 to 600 employees, and more than 30% for less than 300 employees.

54. Among 582 central administration units, 10% of them had no internal auditor and contracted with service providers to conduct internal audits. 37% of them hired a part-time auditor in their unit (9% of units with less than half-time equivalents auditor, and 28% of units with above half-time and less than full-time equivalents (FTE) auditor). 32% of them had a single auditor in their unit and only 21% of them had more than one FTE auditors or more than two in their unit (Figure 2.8).

Figure 2.8. Internal audit units' size in the central administration in 2021



Source: Poland's Ministry of Finance, 2022

55. Regarding the financial threshold of 40 million PLN, several stakeholders expressed their opinion during the interviews that the financial threshold for internal audit obligations should be raised. Small organisations do not have sufficient financial resources to establish a team of internal auditors and have no choice but to hire a part-time auditor or contract with a service provider to fulfil internal audit duties. It was pointed out that the small internal audit

³⁶ [Benchmarking and surveys - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl)

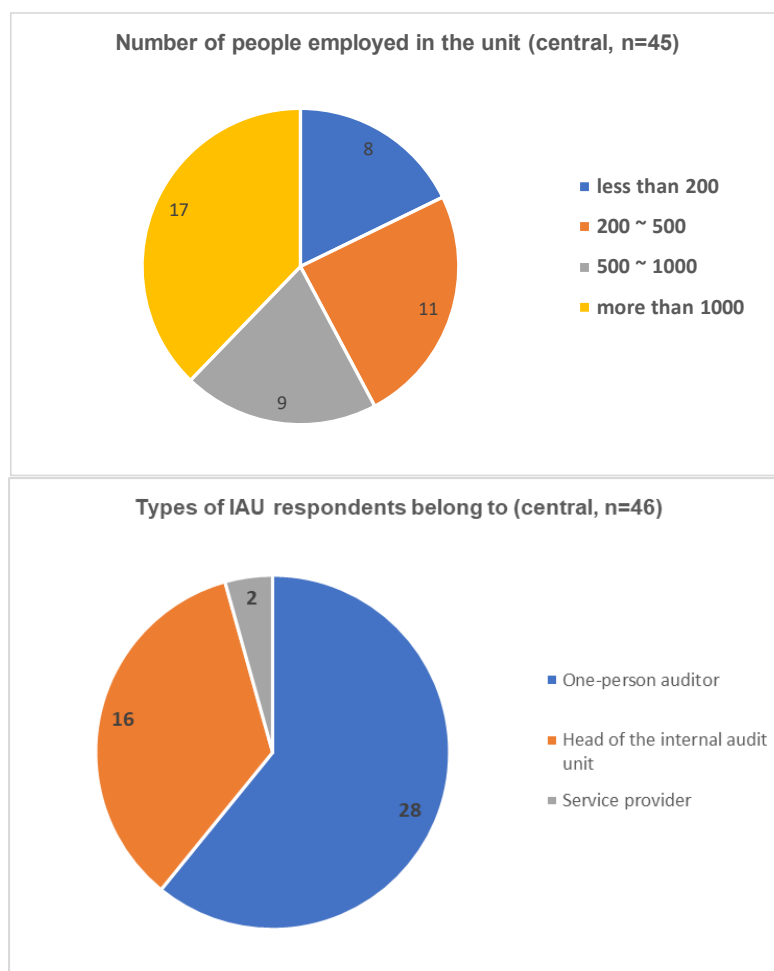
³⁷ [Internal audit assessment - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl)

³⁸ [Benchmarking and surveys - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl)

units are not able to ensure the effectiveness of internal auditing and to meet necessary independence and objectivity requirements, and that internal audit function is being implemented just to fulfil the legal obligation and not to create value-added audit opinions.

56. A comparison of the number of auditors and the size of the entities to which respondents belonged in the survey of internal auditors shows this difference. In the case of the central administration, 26 out of 46 respondents belonged to entities with more than 500 employees. However, 28 of the 46 entities employed only one auditor (Figure 2.9).

Figure 2.9. Comparison of the size of entity and internal audit unit



57. For local government units determining the optimal size of the internal audit unit is a more complex task. The size of local government units varies greatly, with some being large enough to establish teams of internal auditors while others are much smaller and cannot afford it. For many small local government units, relying on service providers for their internal audit function is often the only option. However, this can lead to a few challenges and risks described in the section below.

58. The exact number of local government units conducting internal audits is not known. This is because local government units are not required to provide reports on their audit activities to the central harmonisation function of the Ministry of Finance. The Ministry of Finance estimated the number of the units with an internal audit obligation at the end of

2021, which is 72% of all local government units. The central harmonisation function conducts every 3 years a survey to analyse the internal audit activities of local government units, but responses to the survey are voluntary. The results of the 2021 survey (Figure 2.10) provided the following information about the internal audit organisation in the local government units:

Figure 2.10. Internal audit units' size in local government units³⁹ in 2021

Local government units	Part-time	1 full-time	More than 1 full-time
Voivodeships	0,0%	13,3%	86,7%
Cities with counties rights	12,3%	50,9%	36,8%
Counties (poviats)	50,0%	45,7%	4,3%
municipalities (total), including:	68,9%	28,7%	2,4%
City municipalities	54,9%	40,2%	4,9%
City-rural municipalities	69,5%	28,9%	1,6%
Rural municipalities	89,4%	10,6%	0,0%

Source: Poland's Ministry of Finance, 2022

59. A small one-person internal audit unit involves a significant amount of work, which would on a pro rata basis be significantly reduced if resources were centralised or more rationally organised. Establishing a centralised internal audit unit (e.g., in a local government units' office) that covers subordinate entities could have an effect of:

- creating a critical mass of internal auditors which would enable a wide range of skills to be acquired,
- ensuring the service could continue in the absence or in the event of the departure of individual officers,
- enabling a structure for the unit to be created which could provide a career progression for internal auditors, and
- ensuring experience is built up and passed on so as to enable a better quality and more effective end product.

60. Determining the optimal size of an internal audit unit is a complex and multifaceted task that requires sound strategic planning and careful consideration of various factors. One of the main considerations is the potential benefits of having a larger team of auditors. A larger team can bring many benefits, such as reducing errors in risk assessment, improving audit quality management, increasing audit competencies and assurance impact and ensuring the objectivity of the audit process. However, it also comes with a cost, as hiring

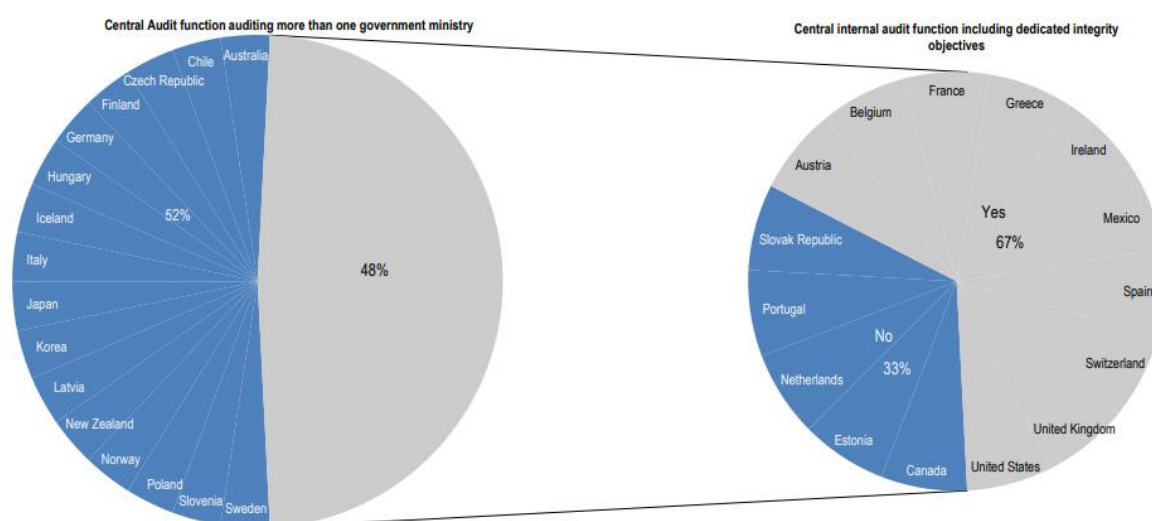
³⁹ According to the Statistical Office of Poland (<https://stat.gov.pl>), the three-tier administrative (territorial) division of Poland was introduced on 1 January 1999 and divided the territory of Poland into voivodeships, then into powiats (counties or districts), and these in turn are divided into gminas (communes or municipalities). Major cities normally have the status of both gmina and powiat.

multiple auditors can be expensive, especially for small entities where the cost of hiring a large number of auditors may outweigh the benefits.

61. The IIA defines that making the decision whether to create a centralised or decentralised internal audit activity, the organisation should consider the advantages and disadvantages of each option to decide which model is best suited for the organisation's current stage of maturity and political environment.⁴⁰ It provides that economy and efficiency are key benefits of the centralisation of internal audit function, while improved effectiveness, as a result of being closer to the entity, is the key benefit of the decentralisation.

62. Having a central internal audit function could strengthen the coherence and harmonisation of the government's response to integrity risks.⁴¹ Auditing of multiple entities at a central level can: leverage available audit resources, enhance the government's ability to identify systemic, cross-cutting issues, and put measures in place to respond from a whole-of-government perspective. Many OECD countries have a central internal audit function that has responsibilities for auditing more than one government ministry and most of these central internal audit functions have dedicated integrity objectives, as shown in Figure 2.11.

Figure 2.11. Existence of centralised internal audit function with dedicated strategic integrity objectives



Note: Czech Republic and Chile have plans to develop a centralised audit function, and the Swedish National Audit Office, an external audit institution located under the Parliament, audits the whole public sector.

Source: OECD, Government at a Glance, 2017

63. Under the decentralised approach internal auditors are close to the business operations under review, which can help forge relationships that result in candid dialogue

⁴⁰ Building an Effective Internal Audit Activity in the Public Sector (theiia.org); a limited access to this document

⁴¹ OECD (2019), *OECD Integrity Review of Argentina: Achieving Systemic and Sustained Change*; [OECD Integrity Review of Argentina : Achieving Systemic and Sustained Change | OECD Public Governance Reviews | OECD iLibrary \(oecd-ilibrary.org\)](#); available to read on the OECDs' website

about risk and controls.⁴² In some countries, a complete centralised internal audit function has been implemented to maximize the benefits of having a large, unified audit team rather than multiple small teams in separate organisations (e.g. Belgium⁴³, UK). This approach has its advantages, such as the ability for auditors to work together as a team and benefit from each other's skills and sectoral knowledge, as well as better aligning with the legal framework requirements and standards. The United Kingdom's Government Internal Audit Agency is an example of a centralised internal audit entity that has dedicated integrity objectives, as outlined in Box 2.2.

Box 2.2. United Kingdom Government Internal Audit Agency

The Government Internal Audit Agency (GIAA) was launched on 1 April 2015 as an executive agency of HM Treasury (HMT) to help ensure government and the wider public sector provide services effectively. The GIAA helps ensure the United Kingdom government and the wider public sector provide services and manages public money effectively and develops better governance, risk management and internal controls. The GIAA delivers a risk-based programme of work culminating in an annual report and opinion on the adequacy and effectiveness of government organisations' frameworks of governance, risk management and internal control. It provides a range of services, including:

- Assurance work: This provides an independent and objective evaluation of management activities in order to give a view on an organisation's effectiveness in relation to governance, risk management and internal controls.
- Counter fraud and investigation work: We provide advice and support to customers on counter fraud strategies, fraud risk assessments, and measures to prevent, deter and detect fraud. Where commissioned, their professionally trained staff investigate suspicions of internal or supplier fraud or malpractice.

Its internal auditors look at financial risks and wider issues, such as:

- employee relations
- management structure
- relationships with stakeholders
- and then offer advice on how to improve those systems and processes, based on their findings.

GIAA is responsible for:

- reviewing the functions and activities of government and public sector organisations, and assessing their efficiencies and risks
- making recommendations for improvement based on their assessments, and
- adding value to public services and improving how effectively organisations provide them.

GIAA's priorities in capacity building described as follows:

⁴² HAYES, C. (2018), "Centralized vs. Decentralized Audit Functions", *Internal Auditor*, THEIIA.org. Centralized vs. Decentralized Audit Functions (theiia.org); a limited access to this document

⁴³ [Federal Internal Audit |](http://www.federalinternalaudit.nl)

1. Expand their capacity and expertise in areas including:
 - counter-fraud and investigations
 - information systems and
 - programme and project management.
2. Introduce a framework agreement for internal audit services at the central level that will:
 - improve private sector involvement
 - make use of the collective purchasing power of government internal audit
 - strengthen customer support (e.g. around sharing best practice, and access to specialist skills)
 - develop the framework for providing assurance around cross-government and inter-organisational risks.

Source: (United Kingdom Government Internal Audit Agency, 2018)

64. Lithuania, for example, under the second structural public internal control and internal audit reform streamlined a decentralised system into a partly centralised internal audit model in 2020. The Law on Internal Control and Internal Audit of Lithuania defines that centralised internal audit units must be established in ministries and municipalities.⁴⁴ Nevertheless, taking into account the organisational structure of the organisation, the scope and importance of the functions performed, the number of subordinate public organisations and other specific features of activities, an internal audit service may be established by a decision of a Minister at a public organisation carrying out activities in the area of management assigned to the Minister.

65. It is critical to have sufficient audit resources to achieve the objective of internal audit activities. The IIA standard 2230 requires internal auditors to determine resources that will be appropriate and sufficient to achieve the engagement's objective based on an assessment of the nature and complexity of the task, time, constraints and available resources.⁴⁵ Thus, creating a larger internal audit unit within a bigger organisation (e.g., a ministry) and giving the responsibility to audit subordinate entities links the optimal size of an internal audit unit to the threshold of internal audit obligation. If the threshold is raised, there is more room to create a larger internal audit unit within the supervising entity. The cost and benefits of internal audit must be carefully considered.

66. During the OECD team's fact-finding mission on 9-13 January 2023, multiple stakeholders expressed their concerns about the quality of internal audit provided by the single-person audit units, part-time auditors and service providers. They have noted that the current threshold is too low and creates more burden than benefits. This is because small organisations may not have the resources to implement an internal audit unit and may rely on service providers, that could result in poor quality assurance, lower adding value, less effective service and poor implementation of internal audit goals and objectives defined in the Public Finance Act. It is difficult for a small internal audit unit to conduct risk assessments and provide independent assurance over the internal control system across the organisation,

⁴⁴ IX-1253 Republic of Lithuania Law on Internal Control and Internal Audit (<https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/e5725040e37e11ea869e86e74cfea363?jfwid=bkaxmyl6>)

⁴⁵ 2230 – Engagement Resource Allocation (theiia.org); a limited access to this document

and even if they managed to conduct a risk assessment, they have no opportunity to rectify biases and errors in their risk assessments. This could be also explained by the PII analysis results of the Principle 10 of Poland, which indicate that there are no regulations requiring a minimum of two persons per unit, thus criteria “The regulatory framework specifies the scope of work and size of IA units (minimum two persons per unit)” is not fulfilled for Poland, even though the legislation defines the internal audit scope as providing systematic assessment of internal control and consulting services for all of public entity operations.

67. In this context, the role of coordination, analysis, monitoring and quality assurance by the central harmonisation function become critical. Without an internal audit unit, external auditors will also need to be more involved to provide necessary assurance to the citizens, which can be a significant challenge. They will need to have a thorough understanding of the local government units’ operations and processes and to be more proactive in identifying any potential risks or issues. Additionally, they will need to work closely with the management to identify areas for improvement and make value adding recommendations for improvements.

68. As internal audit coverage is at present determined by available resources, it is important that sufficient resources are made available to cover the predetermined scope. The resources for internal audit need also to continue to be monitored centrally by the Ministry of Finance to ensure adequate and proportional audit coverage. As the internal audit obligation of a public sector entity is determined by its financial size, the Ministry of Finance could consider raising the threshold and centralising internal audit function accordingly.

69. The optimal size of an internal audit unit could be determined by taking into consideration the mandate and scope of internal audit, the number of employees in the entity, the size of expenditure of the entity and the complexity of the internal control environment. The Ministry of Finance could consider better grouping of internal audit staff resources with a more centralised approach decisions and the general pattern of internal audit implementation needs to be evaluated with a view to providing the more effective, efficient and economical use of resources, better internal audit coverage and a more rational set-up of internal audit units with no less than two internal auditors. Larger internal audit groups could provide a stronger and better basis for the further fostering and development of the internal audit function.

Service providers

70. The Act on Public Finance provides the legal basis for outsourcing internal audit to a service provider. According to the Article 275, internal audit may be performed by an internal auditor employed in the entity, or a service provider not employed in the entity. The Article 278 sets out the conditions under which a service provider may perform internal audit: if the budget of a public entity does not exceed PLN 100 million or if the entity employs fewer than 200 employees. In entities in the branch (i.e. subordinate to a ministry), internal audit may be conducted by the service provider with the consent of the competent Minister managing the branch.

71. A service provider, either a natural person or a company, should meet the same qualification as internal auditors employed in an entity, which is a good practice considering that necessary professional qualifications are clearly specified in the primary regulation, i.e. the Act on Public Finance defines that a service provider should have one of the following qualifications to conduct internal audit:

- was awarded one of the following certificates: Certified Internal Auditor (CIA), Certified Government Auditing Professional (CGAP), Certified Information Systems Auditor (CISA), of the Association of Chartered Certified Accountants (ACCA), Certified Fraud Examiner (CFE), Certification in Control Self-Assessment (CCSA), Certified Financial Services Auditor (CFSA) or Chartered Financial Analyst (CFA),
- passed an internal auditor exam with a positive result before the Examination Board appointed by the Minister of Finance (between 2003 and 2006),
- qualifications of a statutory auditor, and
- two years of experience in internal audit, holding a postgraduate diploma in internal audit, issued by an organisational unit which, on the date of awarding the diploma, was entitled, in accordance with separate acts, to award a PhD in economic or legal sciences.

72. Service providers play a significant role in the Polish internal audit ecosystem. About 10% of internal audit units in central government units outsourced their internal audit functions to service providers, and this trend is more pronounced in small local government units. 41.7% of powiats (counties) and 68.7% of municipalities outsourced their internal audit functions to service providers; in particular, 85.3% of rural municipalities relied on service providers for internal audit (Figure 2.12).

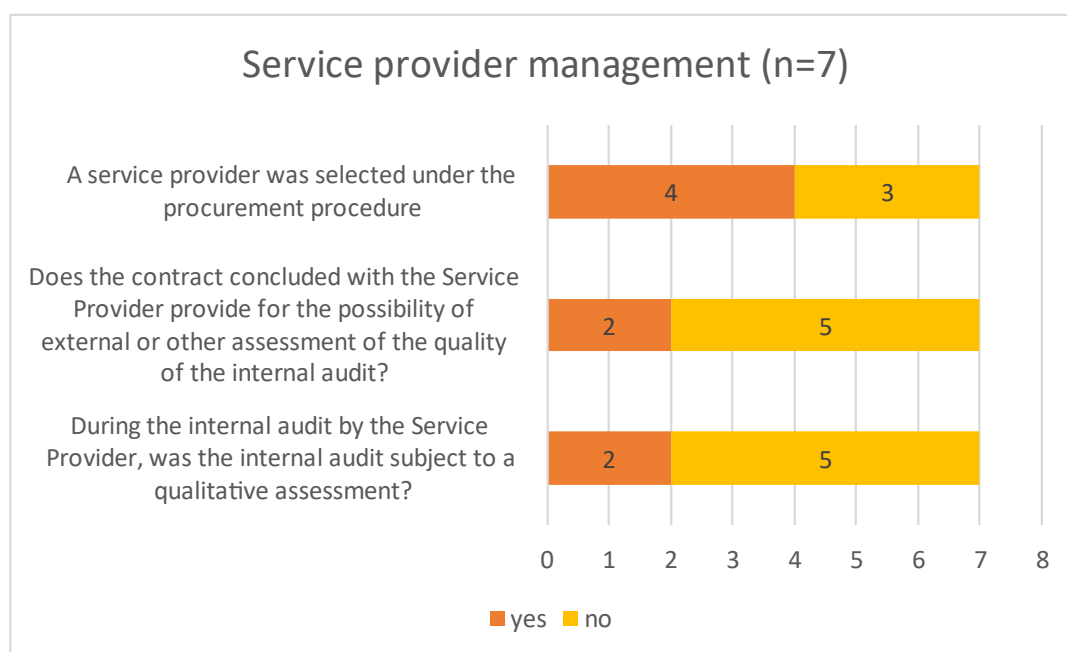
Figure 2.12. Internal audit function by service providers in local government units



Source: Poland's Ministry of Finance, 2022

73. The OECD has identified concerns among internal auditors about the quality of service providers' audits. Although the service cost of service providers is more economical than directly hiring an internal auditor, there were concerns expressed by various stakeholders that it was difficult to ensure sufficiently qualified manpower. Also, it may not be easy to obtain the sufficient cooperation of the auditee in a situation where the continuity of auditor selection is not guaranteed. In addition, the OECD fact finding mission revealed that in some cases provisions for evaluation and quality control were not included in contracts with service providers to ensure the quality of internal audits (Figure 2.13).

Figure 2.13. Service provider management



74. According to the summary of the results of the survey on the functioning of the internal audit in local government units in 2022⁴⁶, in total, 53.8% of local government units (677 out of 1258) reported that a quality assurance and improvement program had been developed. In local government units audited by the service provider, the quality assurance and improvement program was developed in 43.7% (328 out of 750) units and external assessment was carried out in only 6.0% of units (45 out of 750). In the case of local government units where the internal audit is conducted by an auditor employed in the unit, this percentage was higher and amounted to 26.0% (132 out of 508) units, and the quality assurance and improvement program was developed in 68.7% (349 out of 508) units.

75. During the fact-finding interviews, almost all stakeholders emphasised that internal audit function provided by service providers may lead to a lower level of assurance, poor quality management and a limited scope of the audit which is typically limited to financial compliance. This is because service providers may not have the same level of knowledge and expertise as an in-house internal audit unit and may not be able to provide the same level of assurance.

76. The IIA standard 2070, External Service Provider and Organisational Responsibility for Internal Auditing, provides that when an organisation outsources internal audit work, it is not released from the responsibility for maintaining an effective internal audit activity.⁴⁷ The standard defines that it is important that the external service provider understands the 1300 series of standards and can make the organisation aware of its responsibility for maintaining a quality assurance and improvement program that covers all aspects of the internal audit activity and includes ongoing monitoring, periodic self-assessments, and external

⁴⁶ <https://www.gov.pl/attachment/da888d9b-a2e2-4c0f-a51e-290bac18842a>

⁴⁷ 2070 – External Service Provider and Organizational Responsibility for Internal Auditing (theiia.org); a limited access to this document

assessments conducted by a qualified independent party to support conformance with the Standards and The IIA's Code of Ethics.

77. The use of service providers has the advantage of performing internal audits at a lower cost, but there are risks of not providing fully functional internal audit service. The risks of using a service provider for internal audit services also might include:

- possible lack of sufficient human resource commitment,
- lack of understanding of the organisation's internal culture and business processes,
- difficulty in auditing performance management to achieve organisational goals,
- difficulty in aligning with consulting services to improve the effectiveness and efficiency of the organisation,
- possible lack of understanding and coverage of risk management with a tendency of focusing on financial compliance,
- difficult to build knowledge of the internal control environment and context within an organisation,
- difficulty in communicating with management on a regular and ongoing basis to improve internal controls.

78. The Ministry of Finance could consider defining in the regulations the harmonised arrangements, quality expectations and assurance for internal audits performed by service providers, as well as ensuring that contracts include the minimum requirements for human resource inputs, adequate internal audit scope and quality control.

Staffing and professionalism

79. The Article 286 of the Act of Public Finance requires a person to have one of the qualifications, as described in the previous section above, to be allowed to perform internal audit in the public sector.

80. To support the implementation of the provisions of this article and to ensure the necessary quality of internal audit in public finance sector entities, the Ministry of Finance has prepared the information and guidelines to verify the qualifications necessary to conduct internal audit.⁴⁸ The material has been prepared for heads of units and employees of HR units involved in the recruitment process for the position of internal auditor or in the preparation of a contract with a service provider to conduct an internal audit. The information may also be helpful to applicants for employment as internal auditors. The Ministry of Finance has also created a working group to develop a competence model for positions of the head of internal audit unit, internal auditor and internal audit assistant.⁴⁹

81. Despite this good practice, during the interviews with the OECD, many stakeholders pointed out that there is a little opportunity to hire new internal auditors. The IIA suggests that the chief audit executive should work with the audit committee and senior management to determine whether the established size of the activity is appropriate to adequately provide

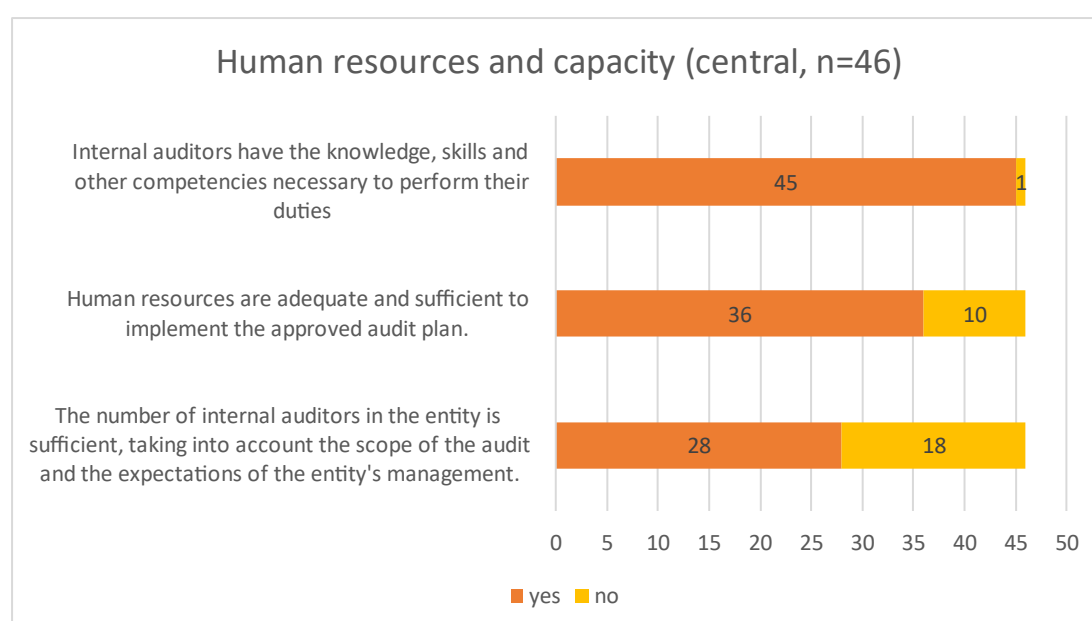
⁴⁸ [Qualifications to conduct internal audit in public finance sector units - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](http://www.gov.pl)

⁴⁹ [Information on the progress of work on the Competence Model of persons conducting internal audit - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](http://www.gov.pl)

audit coverage to the organisation's audit universe.⁵⁰ Nevertheless, the stakeholders have emphasised that due to the senior management's low understanding of internal audit roles, it is difficult for heads of internal audit unit to get more auditors, and that many small internal audit units only have one half or full-time internal auditor.

82. The PII analysis results of the Principle 10 of Poland demonstrate that criteria "Internal audit units are staffed according to legal requirements" is not fulfilled because there are no regulatory requirements in Poland concerning internal audit staffing. And, during the interviews with the OECD, many respondents also perceived that the number of internal auditors was insufficient. In the case of the central government, about 40% of respondents answered that the number of auditors is insufficient to carry out internal auditing duties (Figure 2.14).

Figure 2.14. Human resources and capacity of internal audit units



83. Besides the international qualifications, listed in the Act on Public Finance, which are managed by the international professional organisations, the other options to get the internal audit qualification are limited as Poland does not provide qualification exams. Some interviewees mentioned that current training programmes and workshops for internal auditors are beneficial to continue development of the practical skills, nevertheless, a national training module and the certification system, specifically oriented to the peculiarities of the public sector, would add value for building necessary internal audit capacities in the public sector.

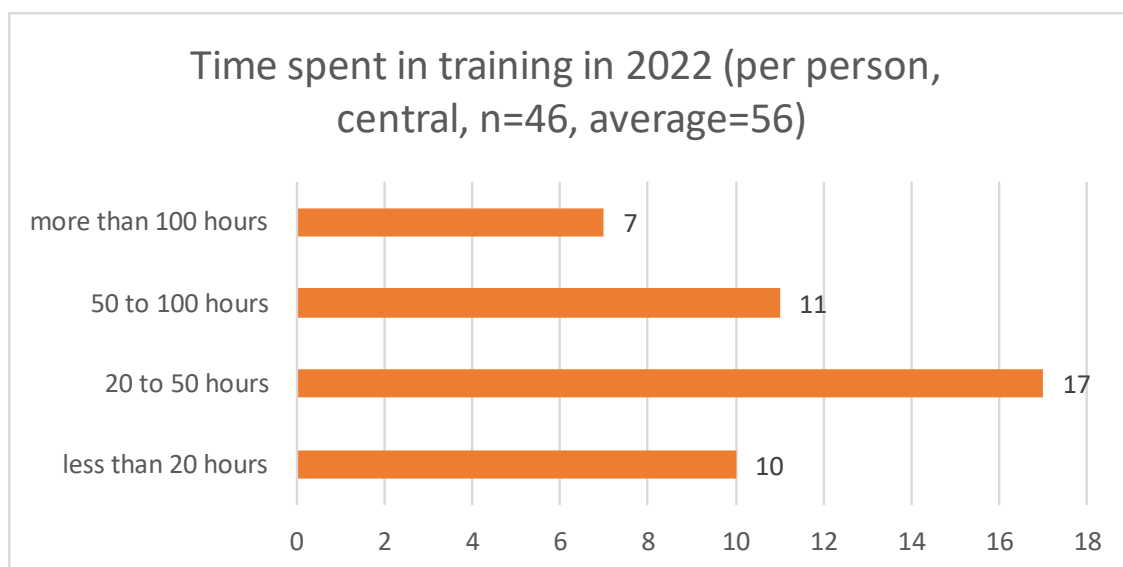
84. To support continuous professional development in internal audit, the Ministry of Finance organised 35 webinars and one workshop during 2021 and 2022. Webinars were dedicated to public managers, internal auditors and audit committees, and they concentrated on internal control and internal audit related topics. Over 2,200 participants took part in these events, which received positive feedback from the attendees. The webinars covered various

⁵⁰ Building an Effective Internal Audit Activity in the Public Sector (theiia.org); a limited access to this document

topics, such as public sector accounting, audit techniques, and fraud protection, and many attendees expressed their satisfaction with the quality of the workshops and training provided by the Ministry of Finance. Moreover, the Ministry has analysed and promulgated the relevant trainings provided by other organisations which could be beneficial to internal audit community.⁵¹ It is important to continuously maintain the workshops and webinar activities in order to enhance the capacity of internal auditors in the public sector and to promote the knowledge sharing and information exchange.

85. It is vital that the Ministry of Finance demonstrates a strong focus on developing a sound approach to the subject of internal audit in its own right as a profession. Accordingly, the survey results show that the majority spent no less than 40 hours per year for training, which is in line with international good practice (Figure 2.15). Trained internal auditors should be proficient in applying internal audit methods, procedures and techniques and be able to recognise significant deviations from good management practice. Internal auditors also need to appreciate the fundamentals of relevant special skills so that they can identify existing problems or potential problems and provide value adding recommendations.

Figure 2.15. Internal audit training time in 2022



86. Moreover, to keep the pace with recent challenges, demands and innovative developments in the public sector, the Ministry of Finance has started to develop a new approach to internal auditing, called **Internal Audit 2.0**, aiming to build the next stage of the evolution of the internal audit function in the public sector as a solid foundation for the key internal audit attributes. The approach aims to meet the requirements and expectations of recipients of internal audit services, to increase its value and to focus on the essence of the following internal audit attributes: compliance, effectiveness, usability and efficiency (Box 2.3).

⁵¹ [The Chancellery of the Prime Minister invites you to online cybersecurity training - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl)

Box 2.3. Internal Audit 2.0 - process of transformation of the internal audit function in the public sector of Poland

The transformation of internal audit, initiated by the central harmonisation function, is taking place based on unconventional thinking and innovative solutions. Innovations play a huge role not only in improving the quality of services provided, but also manifest themselves in more effective work, foster greater involvement of employees and support the process of professional development.

The selected four elements are indispensable and inseparable in shaping the internal audit of the future in Poland:

- Compliance - compliance with laws and standards is essential for the proper performance of internal auditors' duties and audit activities.
- Effectiveness - the effectiveness of the internal audit function is firmly and invariably linked to its key elements: independence, objectivity, proficiency and professional diligence.
- Usefulness - the visible usefulness of internal audit builds a trust among the citizens and other stakeholders.
- Efficiency - if audit resources are effectively used, it works efficiently and fulfils its mission, which translates into strengthening control mechanisms and improving the effectiveness of processes and operations carried out by public finance sector units.

Source: Ministry of Finance, 2023, [Audit 2.0 – an unattainable ideal or reality... - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl/web/ministry-of-finance/audit-2.0-an-unattainable-ideal-or-reality)

87. The Ministry of Finance of Poland had been providing a national examination for an internal audit qualification between 2003 and 2006. The examination aimed to test the internal audit knowledge on applicable audit methodology, standards, public administration and public finance. This effort helped to establish a strong internal audit foundation in Poland by supplying around 2,200 internal auditors.

88. The PII analysis results of the Principle 10 of Poland indicate that, though a certification scheme for internal auditors is operational at the national level, the central harmonisation function doesn't coordinate a certification system to ensure the inclusion of new internal audit staff and their continuous professional education. Moreover, the central harmonisation function doesn't possess information on how many public officials performing internal audit functions have obtained a national or international certificate for internal audit. During the interviews with the OECD many participants have suggested that the national exam should be reintroduced to address the current shortage of internal auditors and to ensure necessary capabilities to meet the growing expectations from the public sector and the citizens. They believe that the national examination system is more effective way to assess knowledge of the public sector, including financial management and public administration.

89. Poland stakeholders have considered that a basic internal audit training qualification, which may have its formal assessment the passing of professional examinations, whether in full or in modules, can be well directed way of motivating internal auditors and ensuring training is well focused. It follows therefore that the existing process needs to be fully tied in with achieving government training qualification. A customised training modules could be developed in co-operation with responsible general public service training facilitators, the Supreme Audit Institution and local professional chambers (i.e. public accountants, associations and universities).

90. Therefore, the Ministry of Finance could consider evaluating long-term initiatives to improve access of internal auditors to comprehensive training, specialised courses and certification in the fields of internal audit, including information technology audit and use of technologies for control and auditing, among others, taking into account various professionalisation approaches applied in different countries (Box 2.4).

Box 2.4. Professionalisation and capacity-building of the internal audit service

Training Scheme for Internal Auditors in Croatia

Basic Training Programme

The Ministry of Finance, Sector for Harmonisation of Internal Audit and Financial Control (Central Harmonisation Unit) delivers a professional training programme for becoming a certified public sector internal auditor. It is an important part of internal audit development at the state administration body level, local and regional self-government unit body, as well as in the majority of government-owned enterprises. All candidates who successfully complete the training programme will:

- receive a certificate allowing them to engage in internal auditing in the public sector of the Republic of Croatia issued by the Minister of Finance,
- become a “Certified Public Sector Internal Auditor”,
- become a part of a network of public sector internal auditors.

The programme is recognised not only by the Ministry of Finance but also the European Union. A developed system of training and becoming a certified professional help certified internal auditors to deliver their work in keeping with the best international practice standards according to the International Internal Auditing Standards.

The training scheme consists of two levels:

- Theoretical training comprises of five mandatory modules. Following this section and upon a successful passage of a written exam, one receives a document confirming passage of the written exam for becoming a Certified Public Sector Internal Auditor.
- Practical training comprises of two successfully completed internal audits. The confirmation thereof is given by a mentor (a certified public sector internal auditor) who has been leading and overseeing the work of the applicants while they perform internal audits. Following the completion of practical training and after passing a verbal exam successfully, one acquires a certificate issued by the Minister of Finance that allows him/her to engage in public sector internal auditing.

Continuous Professional Development Programme

All internal auditors are required after the acquisition of professional certification for the performance of internal audit in the public sector to maintain its expertise in accordance with the provisions of the Instructions on continuous professional development of internal auditors in the public sector in order to maintain the conditions for carrying out independent work in internal auditing, and in order to improve the quality of the internal audit. The Instruction on continuous professional development of internal auditors in the public sector regulates the status of internal auditors, types and fields of professional development, fulfilment of requirements for accumulating points and reporting on continuous professional development of internal auditors in the public sector. The training featured in the catalogue is organised and conducted by the Ministry of Finance's Central Harmonisation Unit.

The Training of Internal Auditors Programme in Slovenia

The Training of Internal Auditors in the Public Sector (TIAPS) provides an example of public sector oriented internal audit certification, combining international best practices with localised regulatory concerns, taught in the language of the host country.

I. Scope and key characteristics: The idea behind TIAPS started in Slovenia in 2002. The TIAPS programme was developed to strengthen competences in internal audit processes in the public sector, paying special attention to the requirements introduced by the accession processes to the European Union. The mandatory and recommended guidelines, issued by the Institute of Internal Auditors (IIA) have long been regarded as focusing on the private sector and unable to fully address the concerns of the public sector. One of the ways that TIAPS addresses such gaps is by including a customisable module on legislation and fiscal issues, written by experts from participating countries. The way of teaching norms and practices differs from that of IIA, which is based more on rules than on principles. The TIAPS clearly illustrates its students what to do and how, in contrast to the guidance issued by IIA, which leaves large room for interpretation. TIAPS is aimed at public sector employees with a bachelor's degree and practical experience in areas such as accounting, financial supervision and control. The programme consists of seven modules, divided into two levels, certificate and diploma. The modules, except for the one on National Legislation and Taxation, were developed by the Chartered Institute of Public Finance and Accountancy (CIPFA).

II. Challenges: The main obstacle to implementing TIAPS is also its greatest strength: adapting the curriculum to the local level. This requires that institutions involved do a great share of the preparatory work prior to delivery of the programme, including translating training materials and training local coaches who will teach the module content in the local language. A related issue is the need to find and hire experts to create the legislation and taxation modules. The team for the implementation of the programme hires translators with good understanding of the content's essence; the initial translation is reviewed by an editor or reviewer, to make any necessary adjustments, according to the standard terminology in each country. Despite being a relatively new programme, TIAPS offers specialisations. However, the specialisations have not yet reached the full equivalence level to directly replace specialised certifications - such as the Certified Information Systems Auditor (CISA), granted by the Information Systems Audit and Control Association (ISACA) - although there are plans to do so in the medium term. The programme also has a way to monitor and ensure that its certified professionals are kept up-to date on evolving audit trends, as the IIA and ISACA do, through its continued professional education requirements.

Internal Audit Development Programme and Internal Audit Competency Profiles and Dictionary in Canada

Among its initiatives to upgrade the development of an internal audit recruitment and strengthening system, the Office of the Comptroller General of Canada developed the Internal Audit Competency Framework, which aims to support and empower a quality and self-sufficient internal audit community in the federal public sector. It provides excellent infrastructure, along with tools and support services, to position the internal audit community as professionals who perform a job in the government of Canada that adds value to organisations.

In addition to coaching, mentoring, and professional development courses, the Internal Audit Recruitment and Development (IARD) Programme offers:

- Up to 36 months of training and job experience,
- A development plan designed to help to succeed,
- Access to mentoring and networking opportunities,
- Support towards obtaining Certified Internal Auditor certification (including paid study leave and reimbursement of tuition fees),

- The place to learn about an organisation's business and to be exposed to senior management
- Opportunity for promotion within the program.

The IA Competency Profiles and Dictionary are the main pillars of competency-based management (CBM). They allow organisations to focus on how a person undertakes their job based on the skills, abilities, and knowledge necessary to perform the tasks. CBM is the application of a set of competences to the administration of human resources (staff, training, performance management and resource planning) to achieve excellence in performance and results that are relevant to organisations.

Source: [Ministarstvo financija Republike Hrvatske - Basic Training \(gov.hr\)](#), [OECD Integrity Review of the State of Mexico : Enabling a Culture of Integrity | OECD Public Governance Reviews | OECD iLibrary \(oecd-ilibrary.org\)](#), [Internal Audit Recruitment and Development \(IARD\) Program - Canada.ca](#)

91. The IIA and other professional associations in Poland seems to welcome public sector internal auditors and the initiatives of the central harmonisation function of the Ministry. Embarking down a professional route for the internal auditors in the public sector of Poland could bring benefit to the profession, the public organisations and the country. The Ministry's efforts to support the system and to share an extent of guidance available to internal auditors and beyond speak for itself.

Independence

92. The Act on Public Finance provides legal framework for the responsibilities of the head of the entity and requirements in organisational structure to safeguard the independence of internal auditors:

- independent preparation of audit plan – in agreement with the head of the entity (art. 283 (3-4)),
- reporting directly to the head of the entity (art. 280),
- access to data and documents (art. 282 (2)).

93. The means for securing the independence of internal auditors are specified in more detail in internal audit charters established by each institution, e.g.:

- Head of internal audit unit reports the results directly to the head of the organisation.
- Internal auditors should not participate in the organisation's operational activities.
- Consulting activities must be carried out within the scope that is unlikely to affect the independence and objectivity of internal audit.
- Internal auditors with conflicts of interest should not participate in audits related to them.
- Internal auditors have access to all documents, information and premises of the organisation.

94. The IIA provides that internal audit's independence from management ensures it is free from hindrance and bias in its planning and in the carrying out of its work, enjoying unfettered access to the people, resources, and information it requires. The principle 5 of the IIA's Three Lines Model states that independence from the responsibilities of management is critical to its objectivity, authority, and credibility; and it is established through accountability to the governing body, unfettered access to people, resources and data

needed to complete its work, and freedom from bias or interference in the planning and delivery of services.⁵²

95. The independence from the day-to-day operations of the organisation means that the internal auditor is not to be involved in any control activities (Box 2.5-6). A good practice suggests that the functional independence should be embodied in legislation and should explicitly cover issues like the freedom of audit planning, audit performance and audit reporting. The Government could consider whether public internal auditors are nominated, transferred and/or dismissed by the manager independently or after consultation with the central harmonisation function.⁵³

Box 2.5. The IIA Standard 1100: Independence and objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation: Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organisational levels.

IIA Standard 1110: Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

Source: The Institute of Internal Auditors (2017), International standards for the professional practice of internal auditing

Box 2.6. INTOSAI - Independence and objectivity criteria for internal auditors

ISSAI 1610 provides criteria to assess the **objectivity** of the internal audit function in the public sector. The internal audit function:

- Is established by legislation or regulation;
- Is accountable to top management, for example the head or deputy head of the government entity, and to those charged with governance;
- Reports the audit results both to top management, for example the head or deputy head of the government entity, and those charged with governance;
- Is located organisationally outside the staff and management function of the unit under audit;

⁵² [three-lines-model-updated-english.pdf \(theiia.org\)](https://theiia.org/three-lines-model-updated-english.pdf)

⁵³ Robert de Koning (2007), PlfC. Public Internal financial Control: A European Commission initiative to build new structures of public internal control in applicant and third-party countries

- Is sufficiently removed from political pressure to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal;
- Does not permit internal audit staff to audit operations for which they have previously been responsible for to avoid any perceived conflict of interest; and
- Has access to those charged with governance.

Criteria to assess the **independence** of the internal audit function in the public sector may include:

- Clear and formally defined responsibilities and authorities of internal auditing in an audit charter;
- Functional and personal segregation of internal auditing from responsibilities for management tasks and decisions (e.g. as heads of operational working groups in administrative reform projects);
- Adequate freedom for the Chief Audit Executive (CAE) in establishing audit plans;
- Adequate payment and grading within the salary scale according to the responsibility and significance of internal auditing; and
- Involvement and participation of the CAE in recruitment of audit staff.

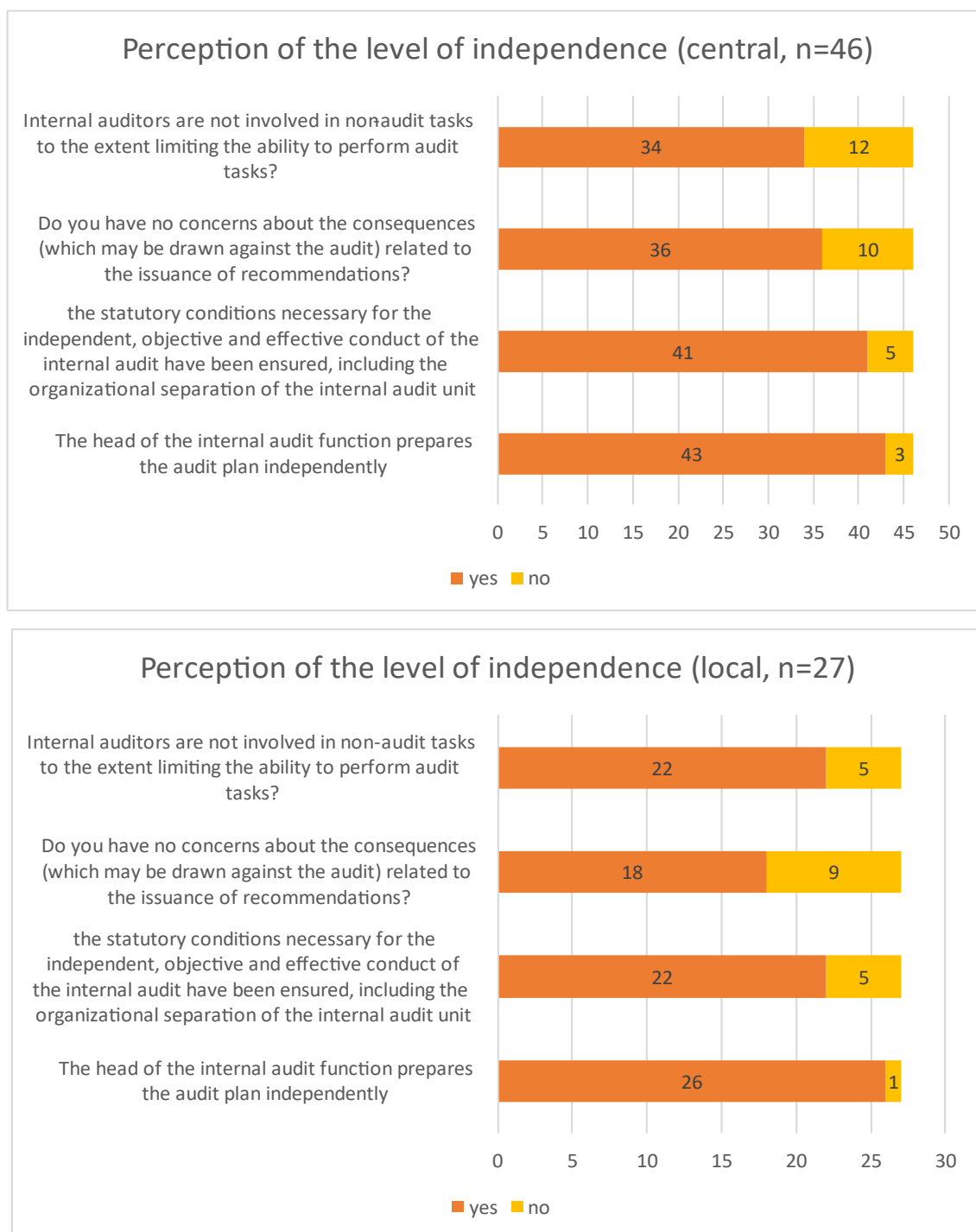
Source: INTOSAI (2019), Internal audit independence in the public sector, [intosai.gov 9140 e 1 \(issai.org\)](https://www.intosai.org/9140_e_1)

96. According to the latest (conducted in 2022 as of the end of 2021) Ministry's survey on the functioning of internal audit units in local government, most of the respondents (internal audit units) replied that manager's responsibilities to ensure the independence of internal auditors are well-observed.⁵⁴ However, still in some local government units the direct reporting lines to head of the entity has not been established and the separation of the internal audit function from other management functions has not been accomplished: internal audit function was combined with unit for data protection, internal control, inspection, security and protection of classified information or was located in the unit for organisational or management coordination.

97. The PII analysis results of the Principle 10 of Poland indicate that the regulatory framework of Poland stipulates the independence of the IA function in determining the scope of internal auditing, performing work, and communicating results. As from the OECD survey (Figure 2.16), internal auditors have expressed an opinion that they were generally satisfied with the independence of internal audit. Nevertheless, there were concerns about the organisational structure of the internal audit unit and the necessity of stronger protection of internal auditors. When dismissing the head of the internal audit unit or changing employment conditions, the approval of the audit committee is required. However, there are no effective protective measures for the rest of the internal auditors and for internal auditors in local governments where audit committees do not exist.

⁵⁴ [Benchmarking and surveys - Ministry of Finance - Portal Gov.pl \(www.gov.pl\);
https://www.gov.pl/attachment/da888d9b-a2e2-4c0f-a51e-290bac18842a](https://www.gov.pl/attachment/da888d9b-a2e2-4c0f-a51e-290bac18842a)

Figure 2.16. Perception of the level of independence



98. The independence of the internal auditor is a key issue in providing an effective service. Internal auditors should be able to make judgments without undue influence or interference and could discuss control weaknesses and areas for improvement with an appropriate level of authority within the organisation. The Ministry of Finance could ensure that the internal audit role is separated from internal control duties in legislation and in practice.

99. The rights of the internal auditor are to approach the Ministry of Finance and audit committees, where established, on concerns, which auditor believes are not being adequately addressed, should be strengthened. Poland could consider that the appointment and dismissal of internal auditors could be subject to the consultation with the Ministry of Finance. And the oversight role of the audit committee could be further developed to help establish and maintain high standards of actual practice in ensuring internal auditors independence.

Audit Committees

100. According to the Articles 288 and 289 of the Act on Public Finance, the audit committee should be established under the Minister to provide advice to the Minister on matters related to internal control and internal audit work. The audit committee also plays a critical role in ensuring the independence of internal audit unit as it has the power to consent to the termination of employment and a change in the pay and working conditions of heads of internal audit units.

101. Regulation of the Minister of Finance on the audit committee of 29 December 2009, pursuant to the Article 290 of the Act on Public Finance, specifies the necessary qualifications of independent members of the audit committee, the method of determining the remuneration of independent members of the audit committee, and the requirements to be met by the regulations of the audit committee.

102. In Poland, audit committees are established at the level of the government administration branch - there are no audit committees for entities outside the government administration branch (e.g., local government administration). As of 2022, there are 18 audit committees that provide oversight of the ministries and organisations subordinate to ministries.

103. The existence of an audit committee has recently become an essential feature of good corporate governance models for the public sector and an aid to the provision of an effective system of public financial control. If properly constituted, the audit committee will at the least provide support to the internal auditor and furthermore help in ensuring independence and support in sensitive cases possibly involving undue pressure and directions from public entity management.

104. Audit committee members are appointed by the Minister managing a branch and it includes at least two persons not employed in the ministry or entities in the branch (so called "independent member"). The above-mentioned regulation requires the independent members to have a master's or equivalent higher education, and at least five years of professional experience, including as a minimum two years in performing managerial functions. The Chairman of the audit committee has to be a secretary or undersecretary of state in a ministry. For example, audit committee of the Ministry of Finance is chaired by the undersecretary of state in the Ministry of Finance and comprised from ten members, of which two are independent.

105. Tasks of the audit committee include:

- indicating significant weaknesses in internal control and proposing its improvements,
- setting priorities for the annual and strategic internal audit plans,
- monitoring the effectiveness of the internal audit,
- protection of a head of an internal audit unit in a branch,

- advisory role in terms of ensuring the functioning of adequate, effective and efficient internal control and effective internal audit.

106. Internal audit units in ministries support audit committees and gather data and documents from internal audit units in branches. Specifically, internal audit units support by collecting audit plans, reports on the implementation of plans and other necessary information; preparing collective information on significant risks and weaknesses of internal control and proposed improvement to internal control; and providing organisational support.

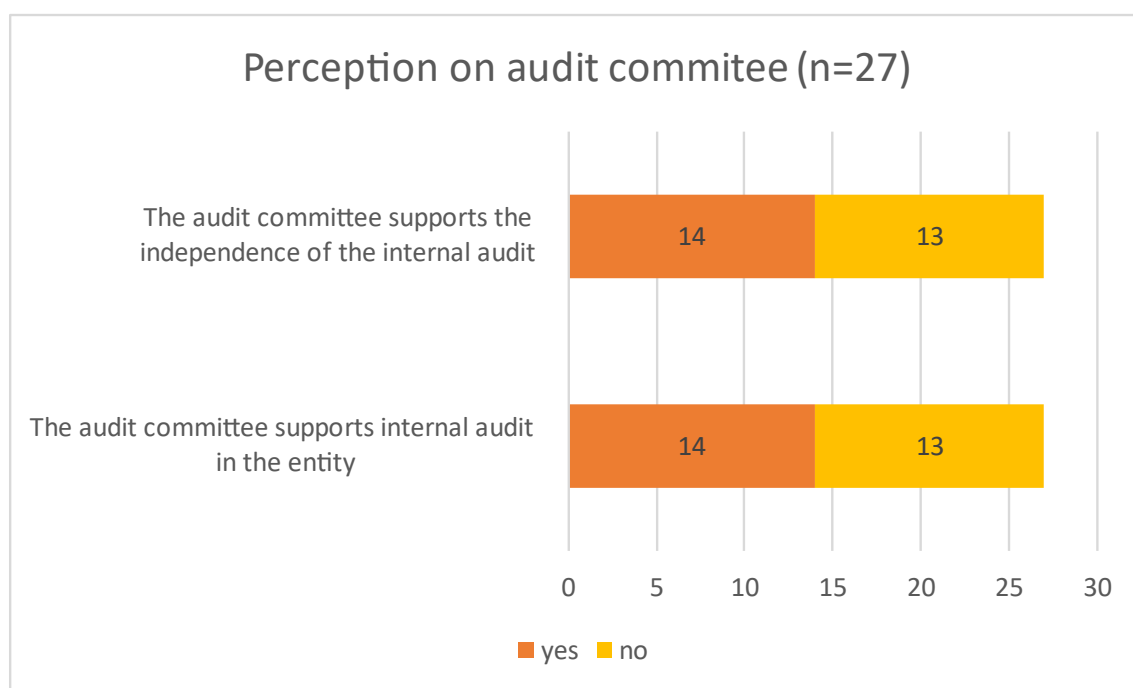
107. By the end of February of each year, the audit committee submits a report on the performance of tasks in the previous year to the Minister managing the branch and the Minister of Finance. The report on the performance of tasks is subject to publication in the Public Information Bulletin.

108. According to the summary report produced by the Ministry of Finance, not all audit committees in 2021 executed all their duties⁵⁵ and set internal audit priorities for annual and strategic internal audit plans as defined in the legislation. Though the number of reported priorities for annual and strategic plans was at a higher level than in the previous reporting period - 27 priorities in 2020 and 41 priorities in 2021, respectively. The number of audit committees for which all reported priorities were implemented did not change significantly: in 2020, 11 priorities were implemented and five were partially implemented, while in 2021, 12 priorities were implemented and two were partially implemented. Some of the committees prepared guidelines for the implementation of the internal audit in the priority area in the serviced government administration departments. However, it should be noted that most of the priorities set focus on aspects related to efficiency, communication and work organisation. It should be emphasised that slightly more than half of the audit committees notified significant weaknesses in internal control and planned to improve it. As in the previous reporting period, weaknesses related to control activities had the largest percentage share. However, in 2021 they were at a higher level and reached about 50% (in 2020 - 38%). Weaknesses in internal control area accounted for over 20% in 2021 of all those reported (in 2020 it was 15%).

109. The OECD team has observed concerns about the insufficient involvement of the audit committee in supporting the internal audit function, determining priorities in the formulation of the audit strategy and annual audit plan, and in defining significant risks and internal control weaknesses within the organisation. The survey of internal auditors also confirmed their scepticism about the role of the audit committee (Figure 2.17).

⁵⁵ [Summaries of annual reports of audit committees on the implementation of tasks - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl)

Figure 2.17. Internal auditor's perception of audit committees in central government



110. This may be due to the following reasons:

- The composition of the audit committee. It is one of the indicators that show its independence. There was a difference in the number of members and their composition within audit committees, however, the majority of them are dominated by internal members. For example⁵⁶, Ministry of Finance had eight dependent members and two independent members, Ministry of Infrastructure had three dependent members and two independent, Ministry of Climate and Environment had three dependent members and three independent; Ministry of Sports and Tourism had three dependent members and two independent.
- Audit committees' members are performing two roles at the same time: they are members of the audit committee and managers of the departments being audited. Even if they are aware of problems in their department, they may prefer to resolve them internally rather than through the audit committee work.
- Low awareness of the usefulness of internal audit. The majority of audit committees' members are managers within the organisation. They are in a position to know the risks to achieving organisational objectives and the weaknesses in internal controls and can therefore play an important role in developing the internal audit plan. However, if they view the internal audit just as a process and not as an opportunity to improve operational efficiency, audit committees' activity will remain low.

111. The Ministry of Finance could consider how an effective audit committee could function in ministries and other public bodies in order to become an essential supporting element of internal control and good corporate governance. The ministry could also consider providing necessary leadership in supporting areas not covered by the committees. These committees should not be a substitute for management's responsibility for mitigating the risks (Box 2.7). The committees shall monitor and assess the arrangements in place to provide

⁵⁶ According to the summary of annual reports of audit committees on the implementation of tasks in 2022.

comprehensive and reliable assurance on financial and performance reporting responsibilities, the system of internal control, risk oversight and management. This involves identifying assurance needs and the most appropriate tools to meet these needs, as well as potential assurance gaps or overlaps and ways to address them; and whether the existing framework will provide the sufficient, relevant and reliable assurance that the organisation needs to avoid surprises and to enable early decisions and actions to be taken on risk and control issues.⁵⁷

Box 2.7. Leading attributes of public audit committees in Australia

A good practice audit committee is distinguished by the following attributes:

- Has a formal charter that has regard to relevant legislative requirements and the entity's broader corporate governance framework, includes the committee's functions and responsibilities, and is approved by the accountable authority.
- Members collectively possess relevant business, financial management, ICT and public sector experience and expertise.
- Has a sound working relationship with the accountable authority, senior management of the entity and other stakeholders.
- Adopts an independent perspective and appreciates and respects the separation of management and audit committee responsibilities.
- Is knowledgeable about the entity's operations, particularly the entity's risks and the arrangements in place for the management of these risks.
- Is chaired by a person who leads discussions, encourages the participation of other members, and conducts meetings in an effective manner.
- Encourages and maintains an open and constructive dialogue with other entity committees, senior management, internal audit and the Australian National Audit
- Exercises judgement and discretion in determining how best to meet its responsibilities.
- Effectively plans its activities to meet its responsibilities; focuses on the important issues and risks; is forward-looking; and adopts a continuous improvement approach in its interaction with entity management.
- Is mindful of the strategic and operational environment of the entity when requesting information from entity management, and balances the resources required with the value to the committee of the information sought.
- Receives an appropriate level of support and provides committee members sufficient opportunities to keep abreast of key developments in the entity, the public sector, the business environment in which the entity operates and the wider community.

Source: ANAO (2015), *Public Sector Audit Committees: Independent assurance and advice for Accountable Authorities*, Australian National Audit Office, Canberra, [Review of ANAO better practice guides | Australian National Audit Office \(ANAO\)](#).

⁵⁷ [OECD Integrity Review of the State of Mexico : Enabling a Culture of Integrity | OECD Public Governance Reviews](#)
| [OECD iLibrary \(oecd-ilibrary.org\)](#); available to read on the [OECDs' website](#)

112. The responsibilities of the committees could include review, oversight and providing independent assurance to the governing body on the: internal control and anti-fraud and corruption framework, comprehensiveness and reliability of assurances on risk management and the control environment and the performance management framework.⁵⁸ The oversight at the local government could reflect the existing framework at the central level.

113. The audit committees could also provide more support to internal audit function through the of review internal audit results and the implementation status of approved management action plans in response to audit recommendations and to ensure the independence, professionalism and objectivity of the internal audit activity.

Auditees' readiness

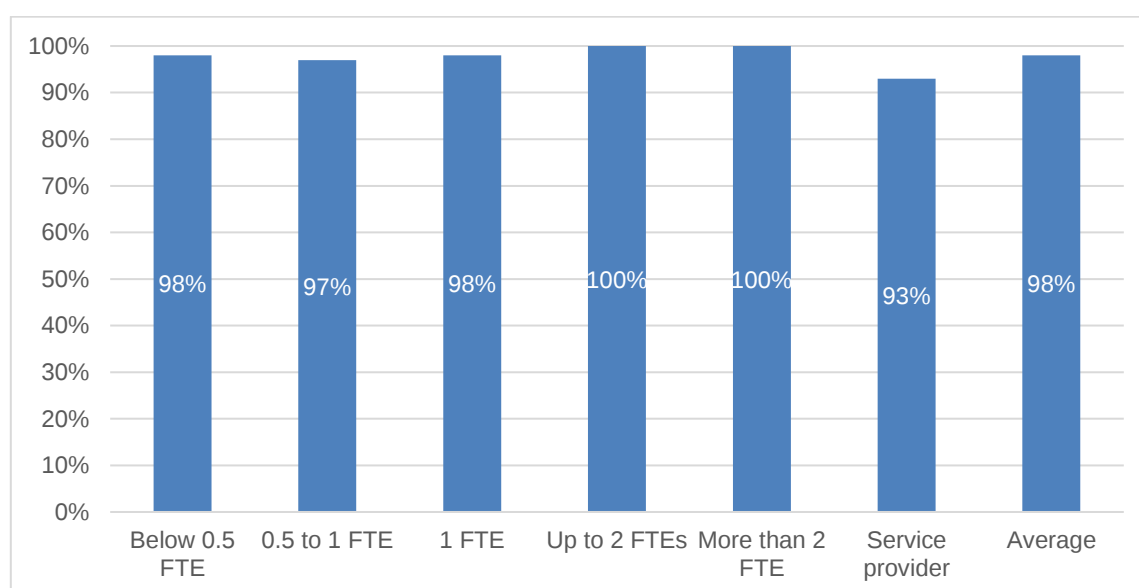
114. The auditee's level of understanding of internal control and internal audit, and co-operation in audit engagement are one of the important factors that determine the impact of internal auditing, in particular for increased acceptance and implementation rate of audit recommendations. According to paragraph 13 and paragraph 14 of the Regulation of the Minister of Finance on internal audit and information on audit work and results, the head of the internal audit unit informs the auditee about the planned performance of the engagement, and the internal auditors start the assurance engagement by agreeing with the auditee on the criteria for assessing controls in the area of activity of the entity covered by the engagement; if the criteria are not agreed with the auditee, it should be agreed with the head of the entity.

115. There does not seem to be much resistance to internal audit function in the Polish public sector. However, it is difficult to conclude that there is an active cooperation. Internal auditors mentioned in an interview with the OECD team that the acceptance rate of audit recommendations is generally high, but the actual implementation rate is not as high. It was also noted that some managers tend to see internal audits as more of a hindrance than a help in improving the effectiveness of their operations. The OECD team has also noticed that some internal auditors perceive that the auditee was not cooperative with the audit and was passive in implementing audit recommendations.

116. Most heads of institutions recognise that internal audit recommendations are generally valid. The benchmarking report for 2021 carried out by the Ministry of Finance showed that 98% of the heads of units in the central administration considered the recommendations of internal audit to be valid. The higher the number of auditors in the internal audit unit, the higher the level of satisfaction, but the difference by the number of auditors was not significant. However, when internal audits were carried out by service providers, the rate of agreement was lower (see Figure 2.18).

⁵⁸ [Audit-Committee-Paper-8th-draft-15.7-disp.pdf \(ecia.eu\)](#)

Figure 2.18. Percentage of recommendations considered valid by auditees by the number of auditors in 2021



Source: Poland's Ministry of Finance, 2022

117. A good practice suggests a continuous focus towards awareness raising and training activities to senior levels and managers, incorporating accountability tools so that these stakeholders take ownership of internal control, with the aim to strengthen their performance and fulfil the goals of their corresponding areas. To ensure necessary developments of internal control policies management needs to consider and to ensure regular monitoring of the control environment and facing risks. Figure 2.19 below illustrates four basic stages of internal control and risk management integration in the governance systems of the organisation.⁵⁹

Figure 2.19 The basic stages on internal control integration



Source: OECD, 2021

⁵⁹ [OECD Integrity Review of the State of Mexico : Enabling a Culture of Integrity | OECD Public Governance Reviews | OECD iLibrary \(oecd-ilibrary.org\)](#); available to read on the OECDs' website

118. Strengthening of the guidelines for this work and constant progress monitoring are important. Training will need to be provided before this can be started but as the subject matter is widely available and understood the selection of a suitable source of training should not be too difficult. The Principle No. 5 of the Internal Control Framework of the COSO Report stresses the importance of enforcing accountability through the establishment of mechanisms by the management and directors in order to communicate and hold individuals accountable for the performance of internal control responsibilities throughout the organisation, and implement corrective actions, if necessary. In the United States, circular A-123 of the Office of Management and Budget highlights the responsibility of the administration in the internal control area (Box 2.8).

Box 2.8. US Office of Management and Budget circular A-123: Management's responsibility for internal control

The circular states the office policy as:

- Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.
- Management shall consistently apply the internal control standards to meet each of the internal control objectives and to assess internal control effectiveness.
- When assessing the effectiveness of internal control over financial reporting and compliance with financial-related laws and regulations, management must follow the OMB's outlined assessment process.
- Annually, management must provide assurances on internal control in its Performance and Accountability Report, including a separate assurance on internal control over financial reporting, along with a report on identified material weaknesses and corrective actions.
- Actions required by the circular indicate agencies and individual federal managers must take systematic and proactive measures to:
 - Develop and implement appropriate, cost-effective internal control for results-oriented management.
 - Assess the adequacy of internal control in federal programmes and operations.
 - Separately assess and document internal control over financial reporting consistent with the process.
 - Identify needed improvements.
 - Take corresponding corrective action.
 - Report annually on internal control through management assurance statements.

Source: United States Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control (Revised 07/15/2016).

119. In order to be drivers, public managers must lead a supportive attitude towards internal control, illustrating the importance of integrity, ethical values and rules of conduct in their guidelines, attitudes and behaviour, through instructions, personal initiatives and the example (Box 2.9-10). This commitment and attitude, also called “Tone from the top”, is a display of the political willingness from senior management to do things right. The top management’s leadership, which is indispensable in internal control, should be channelled through clear messages about the management’s tone towards the entire organisation. In this sense, the central harmonisation function could propose and empower public managers, in their different levels, initiatives, mechanisms and additional tools for integrity, to facilitate overcoming the minimum standards expected. These could include sustained campaigns of external and internal communication with key messages from the direction about control objectives, specific guidance on the risk areas in a sector or entity, regular accountability report on the implementation of the internal control regulations, sharing good control practices, recognising ethical leaders in middle management, among others.⁶⁰

Box 2.9. Attributes of the Control Environment in Mexico

- The organisation demonstrates a commitment to integrity and ethical values.
- The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- The organisation demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- The organisation holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Source: OECD, 2017

Box 2.10. Q&A for providing guidance to senior management and committees on monitoring the effectiveness of internal control, internal audit and risk management systems

1. Who monitors the adequacy of the internal control system? Are there processes to review the adequacy of financial and other key controls for all new systems, projects and activities?

A key part of any effective internal control system is a mechanism to provide feedback on how the systems/processes are working so that shortfalls and areas for improvement can be identified and changes implemented. In the first instance, if there is an internal control department, it will help managers implement sound internal controls. The operation of key controls will then be subject to review by internal and external audit along with other review agencies, both internal and external to the organisation. If no internal control department exists, guidance may be sought from risk management or internal audit.

⁶⁰ [OECD Integrity Review of the State of Mexico : Enabling a Culture of Integrity | OECD Public Governance Reviews | OECD iLibrary \(oecd-ilibrary.org\)](#); available to read on the OECDs’ website

2. Are arrangements in place to assess periodically the effectiveness of the organisation's control framework?

A key requirement of many of the internal control requirements encompassed in legislation throughout the European Union (EU) and the rest of the world is an annual attestation as to the adequacy and effectiveness of the internal control system. Such attestation should be clearly evidenced. The review of the control framework will be the responsibility of the audit committee who will receive information and assurances from internal audit, risk management and the external auditors.

3. Who assesses internal audit?

The audit committee assesses the performance of the internal audit function by receiving performance information from the function itself and consulting appropriate directors and the external auditors. In addition, the function should be independently reviewed by an external agency, such as the Institute of Internal Auditors (IIA), as specified in the International Professional Practices Framework, issued by the IIA.

4. How are the proposed audit activities prioritised? Is the determination linked to the organisations' risk management plan and internal audit's own risk assessment? Are the internal audit plan and budget challenged when presented?

The work of internal audit should be set out in a risk-based plan challenged and approved annually by the audit committee. This plan should be informed by the work of other review agencies, such as external audit and risk management, and should contain sufficient work for the head of internal audit to be able to form an overall view as to the adequacy of the risk management process operated by the organisation. If there is no formal risk management process, or if the process is flawed, then internal audit will need to rely on some other method of assessing the key activities and controls for its review. This could be based on its own risk assessment.

Source: FERMA (2014), European Confederation of Institutes of Internal Auditing Guidance on the 8th EU Company Law Directive, 2014, Federation of European Risk Management Associations, Brussels.

120. The PII analysis results of the Principle 10 of Poland indicate that managerial awareness should be strengthened as some public organisations ascribed the direct responsibility for managing integrity risks to the internal audit function or could not determine such responsibility at all. The analysis results have also indicated that the supreme audit institution of Poland has not conducted a review of the internal control system within the past five years. Moreover, the results revealed that central government bodies are not required by the regulatory framework to report to the central harmonisation function on the implementation of internal control activities, thus limiting an important central monitoring and methodological supporting role on internal control.

121. Internal auditors could assist organisations in establishing and maintaining effective internal control systems and risk management structures and processes. A number of Polish internal auditors have noted that they often focus on compliance audit, but rarely on organisational effectiveness or system audit due to the low level of managerial awareness and cooperation. The laws and regulations can simply be used as an audit criterion, and there is no need to reach an agreement with auditees so that they can be used as an audit criterion. Since it is impossible to disprove the audit criteria when they are used, the acceptance rate of the audit is inevitably high. In order for internal auditors to add more value, it is necessary to focus on the internal control and risk management developments,

organisational performance and effectiveness in achieving objectives, which requires comprehensive discussion with auditees on audit criteria.

122. The Ministry of Finance could ensure a systematic and structural approach in raising managerial awareness and building sustainable capacities of different management levels in governance, internal control and risk management.

3. Effectiveness and Efficiency of Internal Audit

Methodological tools

123. Regulation of the Minister of Finance on Internal Audit and Information on Audit Works and Results of 4 September 2015, pursuant to the Article 285 of the Act on Public Finance, specifies the detailed method and procedure of carrying out internal audit and providing information on the internal audit work and results. This regulation includes procedures and rules for the authorisation of internal audit tasks, audit documents, annual audit planning and reporting, planning, conducting and reporting audit engagements.

124. Most government ministries and agencies in Poland developed and tailored internal audit manuals at the individual entity level, based on the regulation. Nevertheless, The PII analysis results of the Principle 10 of Poland conclude that not all sample organisations have an audit procedure manual in place (e.g., Ministry of Education and Science, Ministry of Agriculture and Rural Development, Ministry of State Assets). Beyond this, ten other sample organisations answered that the audit procedure manual was not adopted by the head of the institution⁶¹. Thus, the criteria “Audit procedure manuals are adopted by heads of institutions for all sample organisations” is not fulfilled for Poland. The analysis results also indicate that the regulatory framework doesn’t require the internal audit unit to develop an internal audit activity manual based on a standard methodology approved by the central harmonisation function in Poland. Accordingly, the function has not issued any guidelines on developing an internal audit activity manual.

125. During the interviews with the OECD team, internal auditors have mentioned the lack of practical guidelines or methodologies (e.g., on sampling methods, performance, system-based or IT auditing) dedicated to specific audit objectives or auditing techniques. The OECD team has also identified differences at the level of individual audit manuals: for example, some organisations have developed comprehensive audit manuals covering the operating principles of the internal audit unit in detail (e.g. describing audit planning procedures, risk assessment techniques, sampling and testing methods, audit result reporting procedures, self-assessment and external assessment methods for internal audit activities, and templates required for audit work), while some other organisations’ audit manuals only provided templates without detailed guidelines, or were limited to explaining IIA’s international internal audit standards. The internal audit manual (coursebook) of the Ministry of Family, Labor and Social Policy is a good example of the developed internal audit manual, that contains guidance on the procedures necessary to conduct internal auditing and on practical auditing techniques such as sampling and testing methods.

⁶¹ This criterion was used during the PII survey. According to the IIA Standards (2040 – Policies and procedures), the head of the IAU is responsible for establishing policies and procedures.

126. Internal audit capacities in audit of IT systems should be emphasised, as IT is becoming more of an integral part of many governance systems, including risk management and internal control. Until internal audit functions develop sufficient skills and competencies necessary for an effective evaluation and review of IT systems and associated technical issues, the Ministry of Finance could consider establishing a central facility staffed with IT-audit experts who can be called upon to give assurance on IT systems and ensuring availability of necessary training tools.

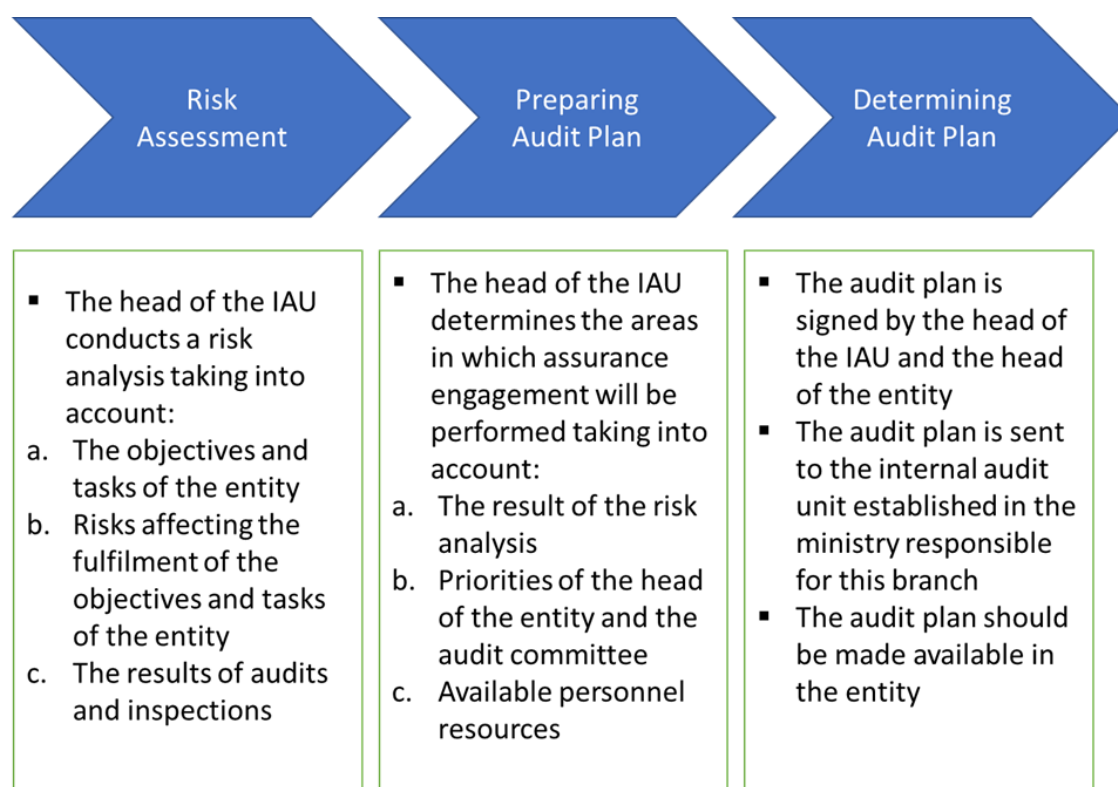
127. Currently, there is a rigid compliance/financial audit approach in use. And although there is general advocacy by internal auditors regarding a system-based approach and performance auditing, the OECD discussions with stakeholders revealed that this needs to be further developed. This is an area, which the central harmonisation function could usefully press forward. It will be unlikely that things will be done right first time, but the sooner this type of internal audit work is tackled the more useful will be the results. Equally important practical documents such as standards, manuals and guidelines, supporting the implementation of the legal requirements, could be considered to be prepared alongside with guidelines how to use them and tailor them in a particular environment. This would also encompass production of practice-oriented documents such as checklists, and forms.

128. The Ministry of Finance could also consider leveraging a delegated audit mechanism (which currently is regulated under the Act on Public Finance) to support a quicker introduction of the performance and systems-based auditing that could enable internal auditors to provide assurance over the internal control systems in an audited organisation. To enhance the practical application, the Ministry of Finance could determine the appropriate balance between compulsory legal provisions and a more flexible and practical approach through harmonised guidance and best practice promulgated through the central harmonisation function at the Ministry of Finance.

Risk-based audit planning

129. The procedure for establishing an audit plan is set out in the Regulation of the Minister of Finance on internal audit and information on audit work and results. The head of the internal audit unit must first conduct a risk analysis prior to establishing an audit plan and then to establish an audit plan considering the results of the risk analysis, the priorities of the audit committee and the head of the entity, and available manpower. The established audit plan is finalised through the consent of the head of the entity (see Figure 3.1).

Figure 3.1. Audit planning process of internal audit units in Poland (Ministries)



Source: OECD, 2022

130. To ensure that planning is effective, meets key objectives and priorities, and is well developed, the internal audit unit is required to provide the annual internal audit plan for the endorsement to the head of a public organisation. The internal auditor should plan each internal audit taking into consideration the following moments:

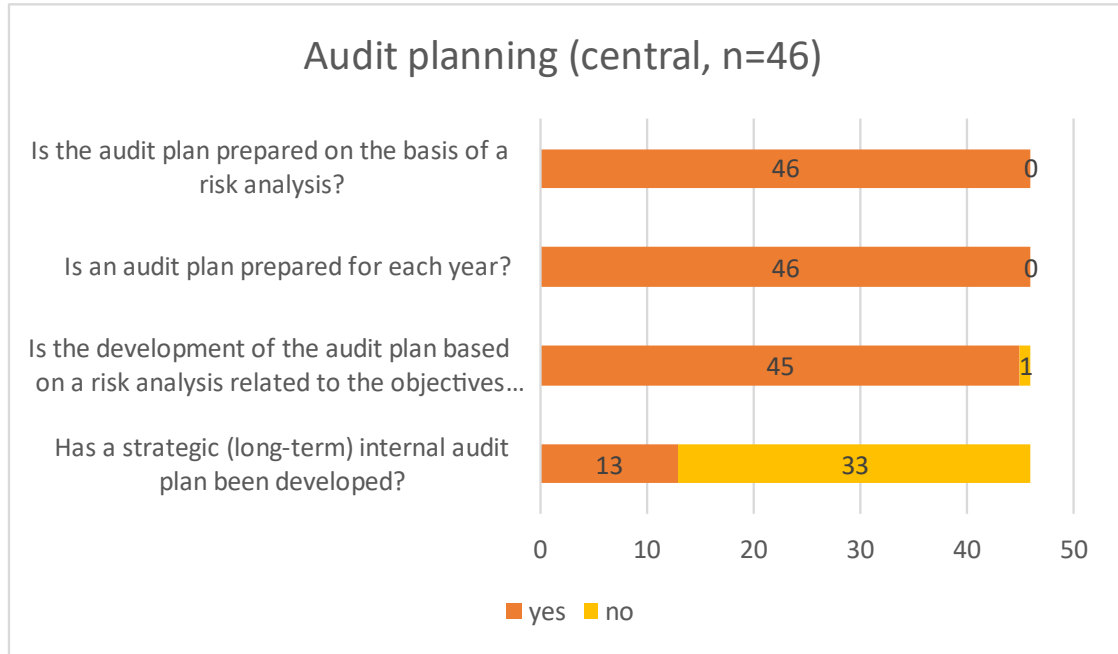
- the objectives of the activity under review and the indicators for assessment of activity results;
- the significant risks pertaining to the activity under review, its objectives and measures;
- structure of the internal control of the activity under review;
- the opportunities for making significant decrease of risk of the activity under review and for improving results of activity.

131. Pursuing the internal audit objectives, the internal auditor develops a program for each internal audit, which should be, approved, as well adjustments, by the head of the internal audit unit.

132. Following the OECD observation on the sample documents and the survey results, internal audit plans are in principle developed based on the results of the risk analysis (Figure 3.2). Internal auditors conduct risk assessments for each business unit or programme, which are scored or graded to indicate the level of risk. Based on risk assessments, the Audit Committee and the heads of the organisations provide input on audit priorities, which are used to finalise the list of audit engagements to be carried out during the year. The annual audit plan covers not only audit engagements but also plans for other

activities of the internal audit unit: advisory activities, follow-up on audit recommendations, and education and training plans for auditors.

Figure 3.2. The status of audit planning



133. Nevertheless, the level of detail in the annual audit plan varied by internal audit units. Some internal audit units specified the timing (quarter) and the number of auditors required for each audit engagement, while others did not include a specific plan. The level of specificity of the plan also varied depending on whether the internal audit unit was directly employed or not. Where there were employed internal auditors, the plans were relatively detailed, but where service provider was performing the internal audit, the audit plans were less detailed. There were also differences in presenting risk assessment results. In the sample, most internal audit units presented risk assessments for all units within their scope of audit authority, but some presented risk analysis for only those units selected for audit in the current year.

134. The PII analysis results of the Principle 10 of Poland indicate that audit plans in all sample organisations use data from an entity-wide risk register and the internal audit function's risk assessment to select areas to audit within the defined audit universe, i.e., all organisations provided documentation showing evidence of a risk-based approach to audit selection.

135. In addition to the annual audit plan, the strategic audit plan is an important document that determines the effectiveness of the audit and supports a good understanding of the changes and threats in the organisation's environment, including the prioritisation of audit engagements based on the results of the risk analysis in the longer term. Since the objective of an internal audit is to assist the organisation in achieving its management goals, it is important that the strategic plan of the internal audit unit is aligned with the organisation's strategic objectives and identified threats that can be obstacles to achieving them. According to the Article 289 of the Act of Public Finance, the audit committee is responsible for setting priorities for the annual audit plan and strategic audit plans.

136. The strategic audit plan facilitates the head of internal audit to allocate priorities, consider risks and decide the frequency extent and subjects to be audited. Without the 'audit universe' of internal audit work being identified, the rest of the process becomes unworkable and is certainly not able to provide a demonstrable basis for any internal audit planning and selection process. Internal audit needs assessments could be considered as a basis for determining the extent of audit work needed to be carried out as part of strategic internal audit planning.

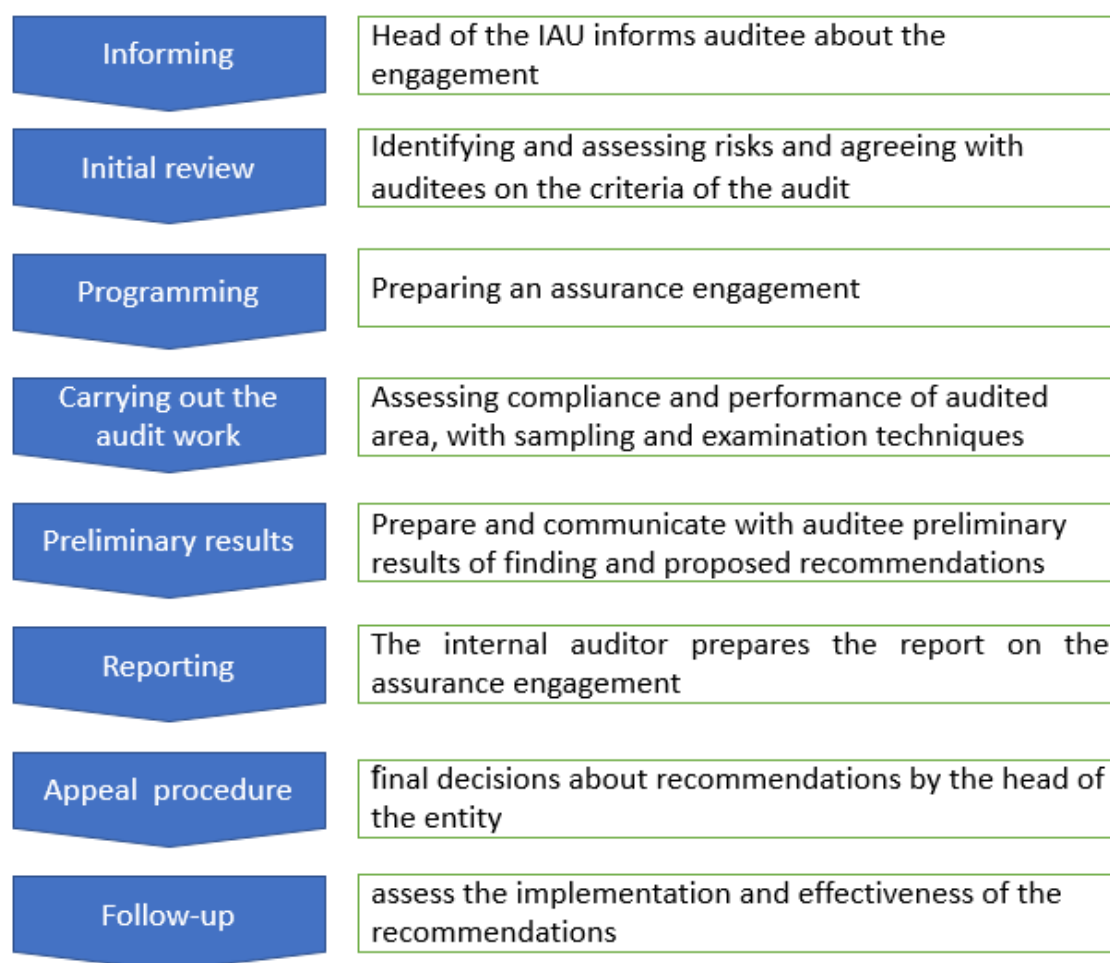
137. The OECD team has also noted that some sample documents did not present an audit engagement roadmap based on a risk analysis of the units and programmes in the audit scope. And a significant number of entities do not appear to have a strategic plan (see Figure 3.2 above). Some internal auditors expressed the opinion that a strategic audit plan is not very useful in the current situation, probably because the size of the audit team is too small to implement a multi-year plan and it is difficult to establish an appropriate plan with a strategic plan that spans three years. Nonetheless, a strategic audit plan is essential to reducing blind spots and effectively responding to risks, following long-term objectives of the organisation and ensuring that all internal resources are appropriate and effectively deployed.

Implementation of audit

138. According to the benchmarking report for 2021 of the Ministry of Finance, internal audit units of the central administration carry out assurance tasks on average about twice a year, and audit reports contain about 11 recommendations on average. As the number of internal audit unit auditors increases, the number of audit recommendations also tends to increase.

139. Regulation of the Minister of Finance on Internal Audit and Information on Audit Works and Results specifies the process for implementation of planned audits and ad-hoc audits. Audit engagement begins with notification of the audit plan to the auditee. Auditors identify and assess risks and effectiveness of the existing controls through an initial review and agree with auditees on the audit criteria. An opening meeting may be held if necessary. Once the audit criteria have been agreed upon, auditors prepare an engagement work program, taking into account the results of the initial review, the opinions of the head of entity and auditee, the resources required to conduct the engagement, and the expected duration of the engagement. After conducting an audit, initial results are prepared and communicated with the auditee (Figure 3.3). Auditees may present reservations in case of disagreement with the findings and recommendations. Auditors prepare reports on audit results and report them to the head of entity. The auditee may present a different opinion on the audit result, in which case the head of entity makes a decision on the implementation of the recommendation.

Figure 3.3. Implementation process of audit engagement



Source: OECD, 2022

140. Working papers maintain a record of work done so that audit progress can be monitored, the fulfilment of audit objectives can be assessed, and other auditors could pick up an audit started by another auditor. They encourage a methodical and professional approach to internal audit by imposing a discipline, using standard audit documentation, and it helps ensure that conclusions and recommendations are arrived at through balanced and objective consideration of facts, risks and controls. This also helps when training new auditors.⁶²

141. During the interviews the internal auditors emphasised that documentation standards need to be examined and harmonised, ensuring the consistent use of working papers and standard documents and for monitoring the audit process. Accordingly, the OECD team has noted in some sample documents, that there are differences in the methods used to reach audit conclusions. In some cases, documents and records were used to verify compliance with transaction processes and individual activities, while some internal auditors relied solely

⁶² [Internal Audit Manual for the Greek Public Administration | OECD Public Governance Reviews | OECD iLibrary \(oecd-ilibrary.org\)](#)

on the auditee's responses. Inadequate collection of audit evidence appeared to be more evident at the service provider level.

142. Following up to ensure that recommendations have been implemented and promised actions carried out is one of the most powerful control facilities an internal auditor has at its disposal. It is vital that the auditee and management realise that merely accepting proposals or agreeing action plans are not a simple way of fobbing off internal auditors and that a structured follow-up review will be inevitable.

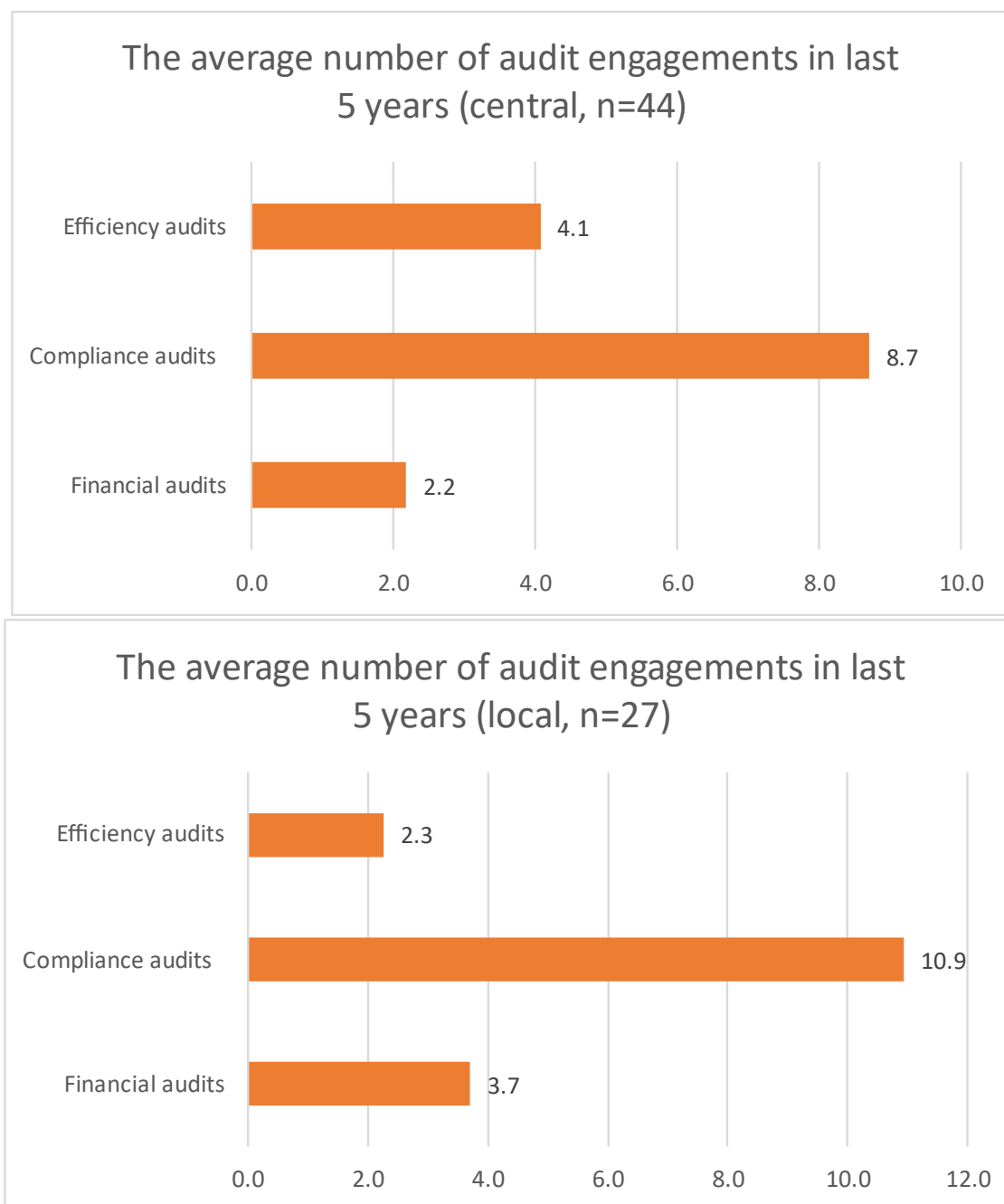
143. Although a number of internal audit units had follow-ups built into their plans, the frequency and extent of follow-up action was not always clear. The advanced practices of internal audit units for documentation and working papers should be used as a best practice guide.

Audit engagement

144. Public sector audits are commonly divided into three categories: financial audit, compliance audit, and performance audit. Nevertheless, during the interviews with the OECD, internal auditors and the Ministry of Finance pointed out that most of internal audit units only conduct compliance audits. Besides that, taking into account the fact that many of the internal audit units have one or less full-time auditors, it is likely that most of the internal audit units only conduct compliance audits. It is necessary to assess whether Poland's internal audit sector is ready to enlarge its audit scope from compliance audit to performance audit, considering that internal audit units in Poland are required to manage the internal audit activity so that it supports an organisation to seek better efficiency and to implement the planned strategies, policies and objectives effectively.

145. From the survey (Figure 3.4) of internal auditors it can also be seen that internal audit activities in Poland are oriented towards compliance audits. Central administrative internal audit units have conducted, on average, about nine compliance audits, four efficiency audits, and two financial audits over the past five years, indicating that the proportion of compliance audits is relatively high. In local government, internal audit units are more oriented to compliance audits.

Figure 3.4. Audit portfolio of the internal audit units



146. From the sample audit engagement documents, it is observed that in practice there are many different types of internal audit engagements: e.g., assurance of internal control, verification of compliance and management practices related to specific programme operations, verification of accounting procedures.

147. In some cases, an internal audit has been able to identify irregularities and weaknesses in the internal control process, while in other cases only a cursory approach has been taken to the overall internal control process and environment.

148. During the interviews the internal audit stakeholders have noted that many managers confuse internal audit with internal control responsibilities and inspection function. The OECD team's analysis of a sample of reports shows that the boundaries between audit engagements and inspection reports are not always clear. Both inspections and audit engagements are aimed at identifying irregularities, making necessary recommendations, and remediating internal control weaknesses.

149. The Ministry of Finance could consider ensuring that the audit criteria are not only concentrated on compliance with laws and regulations but also covers the adequacy and effectiveness of internal control system and the effectiveness and efficiency of performance. The Ministry of Finance could also ensure that internal audit is fully separated from any kind of inspection and control (which is a managerial responsibility; Figure 2.2). Establishment, organisation and role of the inspection activities, that have to be arranged separately from the internal audit function, usually depend on the organisation's control environment and objectives, and the internal audit is in the well-placed position to advice management during the usual independent, objective assurance and consulting activities.

Coordination with external audit and control functions

150. The Ministry of Finance has been proactively coordinating various capacity building events through information sharing and inviting external auditors to share relevant experiences.⁶³ Moreover, to support the development and implementation of the internal control policies in organisations, the Ministry of Finance has developed an assurance map template. It aims to support the organisations to understand how different levels of assurance contribute to the overall level of assurance and how best they can be integrated and mutually supportive.⁶⁴ For example, management assurances could be dedicated to provide coverage of routine operations or specifically regulated functions, while internal audit activity targeted at riskier or more complex areas. Nevertheless, during the interviews with the OECD team, Poland stakeholders have noted that coordination practice is neither supported by the supreme audit institution (SAI) nor by the internal audit function. The communication and coordination practice is rare.

151. SAIs and internal audit bodies could co-ordinate in a variety of ways, as illustrated below (Box 3.1). Areas of co-operation may include evaluating the audit entity's: internal control framework, performance indicators, governance, risk management; documenting the audit entity's systems and operational processes; developing audit procedures; performing audit procedures; assessing fraud and corruption risks.⁶⁵ In some countries, co-operation relationships are laid down in laws and regulations, which are often based on ad-hoc initiatives taken by the audit organisations themselves in order to avoid overlap, inefficiencies, and duplication of work, as well as to facilitate the process and ensure the co-operation of the audited entity. In Germany, for instance, relations between the SAI and internal audit services focused on the establishing of internal audit 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. Thus, it is important that internal

⁶³ [Progr@m](mailto:Progr@m.gov.pl) Knowledge and skills = competences - Ministry of Finance - Portal Gov.pl (www.gov.pl)

⁶⁴ <https://www.gov.pl/attachment/35d0bb30-6701-430f-8329-261090ed3862>

⁶⁵ [Endorsed as INTOSAI GOV 9150 | IFPP \(issai.org\)](https://www.intosai.org/INTOSAI-GOV-9150-IFPP)

audit and external audit coordinate work together to the maximum benefit of the organisation and in line with legal requirements and international standards.

Box 3.1. Countries illustrate various approaches to co-ordination between external and internal audit bodies

Australia

According to Australian National Audit Office (ANAO), professional standards encourage co-operation between internal and external audit to increase audit efficiency by minimising duplication. There can be mutual benefits for the auditees and the external auditor, in the case where internal audit conducts work that can be relied on by the external auditor, particularly in the areas of legal compliance and financial system controls.

Belgium

In the Flemish Community of Belgium the benefits are realised and maximised through consultation between the supreme audit institution and internal audit about: the results of monitoring and risk analysis; the consultation about planning (which audit topics overlap, timing and spread of the topics); the participation of the SAI and internal audit to management boards and management committees; the organisation of and active participation in workshops and information sessions; the systematic exchange of reports and manuals; and the review by the SAI of internal audit's internal control guide.

United Kingdom

In central government, the National Audit Office (NAO), under the Comptroller and Auditor General, is responsible for external audit. The NAO audits the financial statements of all central government departments, agencies and other public bodies and reports the results to Parliament. It also carries out approximately 60 value-for-money studies each year looking at how government projects, programmes and initiatives have been implemented. Internal audit and external audit are encouraged to co-operate by sharing strategies, plans and working practices to optimise audit coverage and reduce the audit burden on the organisation. External auditors may seek to place reliance on internal audit work in accordance with ISA 610 if it considers that the work is sufficiently objective and technically competent and has been carried out with due professional care.

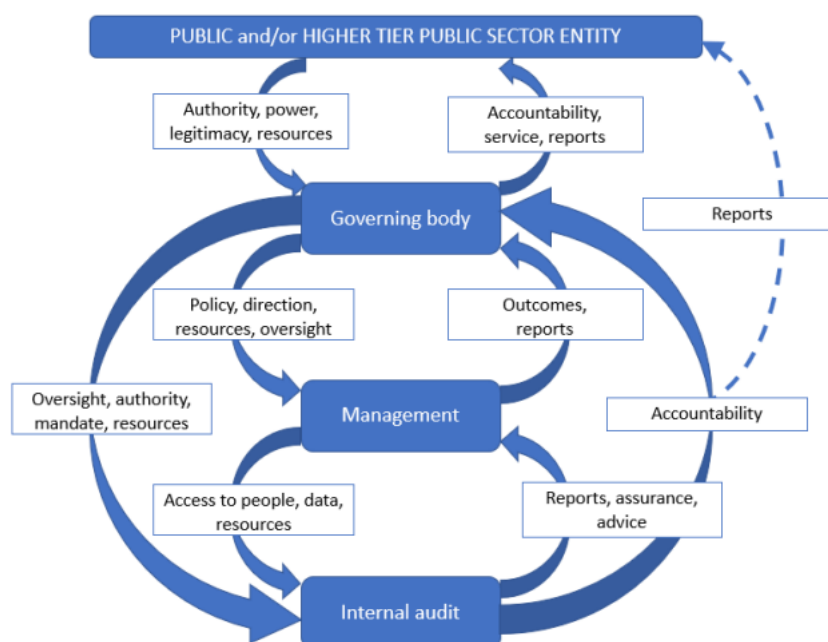
Source: OECD (2017), Mexico's National Auditing System: Strengthening Accountable Governance.

152. The oversight and control under the managerial responsibility, covers performance of ex post financial control and investigations relating to third party complaints and to serious irregularities and fraud, being brought to the attention of the inspection through all kinds of sources, including management, financial controllers and internal auditors. Therefore, it is important to ensure coherent overall coverage between the internal audit activity and other assurance providers, avoiding unnecessary gaps, overlaps, and duplication. To achieve it, internal auditors should cooperate closely with senior management and the governing body to provide assurance on alignment with policy priorities (Figure 3.5).⁶⁶ The internal audit activity is well placed to provide this service through assurance mapping and could support

⁶⁶ [Applying the Three Lines Model in the Public Sector \(theiia.org\)](https://theiia.org/)

the management in defining the position and roles of various control functions, such as inspections, evaluations or investigations.

Figure 3.5. Assurance of public sector entities



Source: The IIA and INTOSAI joint paper, 2022

153. The cornerstone of the effectiveness of any internal audit unit lies in its ability to be independent of the activities it audits, to be objective in the performance of its work and to be efficient via coordination of the audit work with external auditors and oversight functions (if applicable). Nevertheless, it was evident that in some public organisations internal auditors are not independent from internal control functions and are performing similar tasks. The requirements and needs for a management inspection capacity and capability within government could be carefully analysed, observing necessary functional and organisational independence of internal audit.

154. Considering complementarity of internal and external audit, the Ministry of Finance could consider together with the SAI and Regional Chambers of Audit to elaborate ways in which auditors could cooperate without compromising their independence: discussing the priorities, shared trainings, raising managerial awareness and accountability, using the audit work, supporting the internal control system, enhancing the implementation of audit recommendations and contributing to quality assessment processes, etc. For that purpose, the central harmonisation function could consider the IIA Three Lines model approach⁶⁷ and the assurance mapping tool developed by the Ministry of Finance⁶⁸.

⁶⁷ https://www.theiia.org/globalassets/site/content/articles/applying_the_three_lines_model_in_the_public_sector.pdf

⁶⁸ <https://www.gov.pl/attachment/35d0bb30-6701-430f-8329-261090ed3862>

Quality management and central harmonisation

155. According to the Act on Public Finance, the central harmonisation function in Poland is responsible for: promotion of standards on internal control and internal audit; issuance of guidelines; cooperation with domestic and foreign organisations; cooperation with audit committees; commissioning and assessment of internal audit, with the exception of the entities referred to in the Article 139(2) and local government units.⁶⁹

156. In supporting the development of quality of the internal audit, the central harmonisation function collects, and analyses annual reports sent by internal audit units (central government only) and produces a benchmarking report and report on audit committees' performance. As mentioned in the previous sections, not all organisations have a legal duty to report to the Ministry of Finance, e.g. the questionnaires dedicated to local government units are being completed voluntarily.

157. According to the IIA standards, the quality supervision of the internal audit activity in Poland contains:

- The internal assessment, i.e. regular revision of the activity performed by the internal audit unit carried out by the internal audit itself, seeking to ensure the achievement of internal audit objectives, accuracy of data of the internal audit report and to assess proper implementation of other functions;
- The external assessment, i.e. periodic revision of the activity performed by the internal audit unit, carried out by external provider or peer review group at least once per five years, seeking to assess whether the internal audit activity comply with internal audit standards and other regulatory legal acts on internal audit.

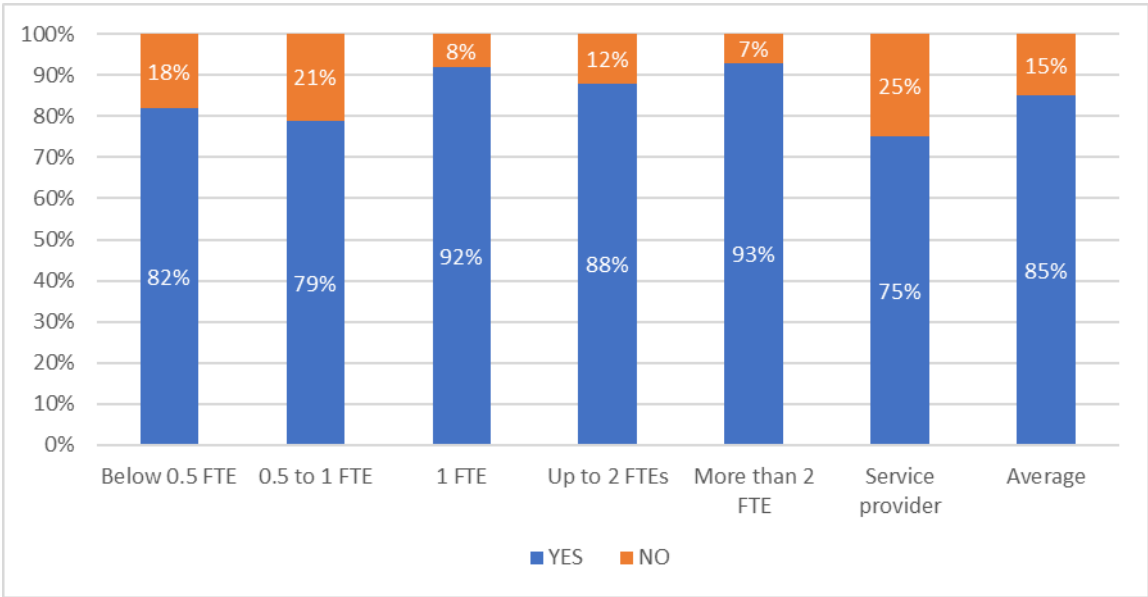
158. At the entity level, each internal audit unit should conduct a self-assessment of its audit activities. Evaluation should be supported by the oversight role of the audit committees. Nevertheless, this was not evident in Poland, as not all audit committees perform this role, neither all internal audit units perform a self-assessment. To support the internal audit quality development, the Ministry of Finance has prepared a tool for internal and external assessment, "Quality@w", available to all internal auditors.⁷⁰

159. Within the central administration, most internal audit functions carry out self-assessment, but there are some differences depending on the size of the internal audit unit. According to the Ministry of Finance's annual benchmarking report, on average about 85% of internal audit units conduct self-assessments each year, but entities with fewer than one FTE internal auditors or contracts with service providers show a lower-than-average rate of self-assessments (Figure 3.6).

⁶⁹ [Legal acts - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](http://www.gov.pl)

⁷⁰ [Form Quality@w - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](http://www.gov.pl)

Figure 3.6. Implementation rate of self-assessment of internal audit by the size of internal audit unit



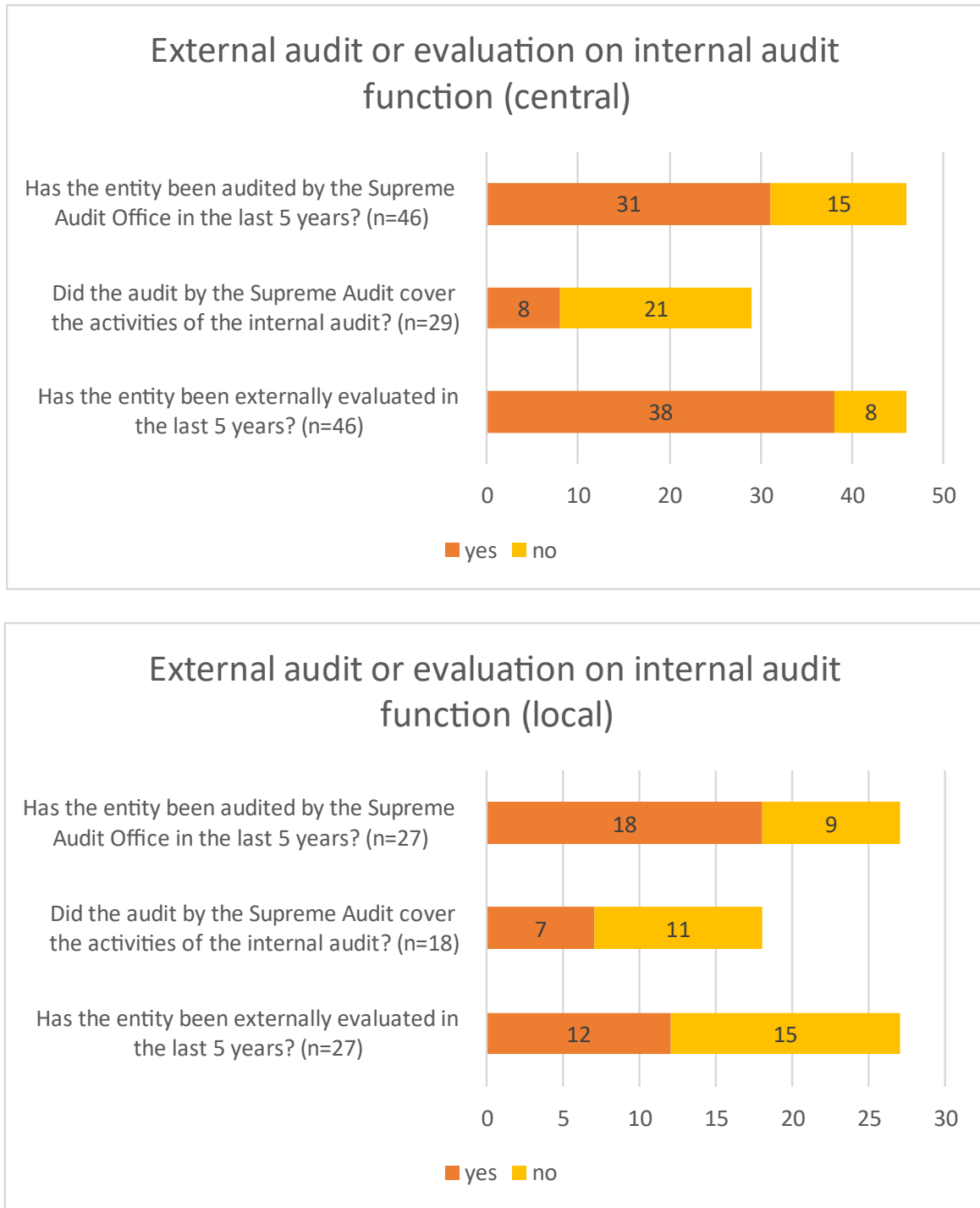
Source: Poland's Ministry of Finance, 2022

160. Evaluating performance when there are few people in the internal audit unit is not easy but nevertheless a harmonised system of performance measurement could be established to allow better central benchmarking and monitoring across the country and to ensure adequate and timely developments of internal audit framework. The central harmonisation function for this purpose could use the developed balanced scorecard approach, internal self-assessment tools and benchmarking mechanism.⁷¹

161. Internal audit functions are required to undergo an external evaluation every five years, but it seems that some organisations do not actually receive an external quality evaluation (see Figure 3.7).

⁷¹ [Coordination of internal audit in public finance sector units - Ministry of Finance - Portal Gov.pl \(www.gov.pl\)](https://www.gov.pl)

Figure 3.7. Assessment of the internal audit function



162. Quality assurance, improvement and supervision of inexperienced auditors is not always feasible under the way internal audit in government is currently structured and needs to be considered both within individual internal audit units and as a broader issue across internal audit function in government as a whole. Therefore, an appropriate managerial awareness, responsibility, accountability and the supporting central harmonisation role are the key structural components of the public internal control framework and for assuring an adequate and effective internal audit system.

163. Once a country has decided to upgrade its public internal control framework through introducing modern, internationally accepted standards, a central harmonising institution responsible for raising the awareness of all stakeholders (incl. management, control and audit levels) towards the new concepts could take the lead by developing a network for an adequate exchange of relevant information between its participants and to ensure the roles comprise the fundamental principles of the internal control framework throughout the country (Box 3.2).

Box 3.2. Roles of the Central Harmonisation Function

- Legislation on public internal control
- Guidance on public internal control
- Assessment of the public internal control system
- Legislation on internal audit
- Standards for internal audit
- Certification for Internal Auditors (policy)
- Guidance on internal auditing
- Training system for public internal control and internal auditors
- Co-ordination and networking

Source: European Commission, 2016

164. In a comprehensively developed systems, the central harmonisation function is responsible not only for the development and promotion of harmonised internal audit and internal control legislation and methodologies, but also for networking, coordination and monitoring of the application of the relevant internal control and internal audit policies. For this purpose, the central harmonisation function should have adequate rights, tools and relevant data, comprising the whole public sector.⁷² Therefore, the Ministry of Finance could consider reviewing the regulatory provisions that define internal control and audit accountability and reporting mechanisms and establishing a system of performance measurement for quality assurance.⁷³

165. The PII analysis results of the Principle 10 of Poland indicate that the central harmonisation function hasn't been conducting a government-wide review on the functioning of the internal control and internal audit systems and that the indicator "Central reporting on internal control and internal audit", which measures managerial responsibility and accountability on internal control and internal audit and the central harmonisation monitoring role, is lagging behind in Poland with only one criterion fulfilled out of nine.

166. Qualitative indicators are usually harder to identify and develop, thus it might require certain period to calibrate the appropriateness and validity. Examples of qualitative indicators might include quality of the findings in terms of materiality, quality of recommendations in terms of impact, degree of risks covered by the audit plan, amendments to the management and control set-up resulting from an audit engagement, opinion of internal and external

⁷² [Effectiveness of internal control and risk management mechanisms for safeguarding public integrity \(oecd-public-integrity-indicators.org\)](https://www.oecd.org/gov/effectiveness-of-internal-control-and-risk-management-mechanisms-for-safeguarding-public-integrity/)

⁷³ [Internal Audit Manual for the Greek Public Administration | OECD Public Governance Reviews | OECD iLibrary \(oecd-ilibrary.org\)](https://www.oecd.org/gov/internal-audit-manual-for-the-greek-public-administration/)

stakeholders.⁷⁴ Based on the measurement according to the performance indicators and analysis of the existing assurance systems according to the received data (e.g. from the internal control or internal audit accountability reports provided by public organisations), the central harmonisation function could initiate regular reporting to the government and the parliament regarding the actual status and the necessary high level improvements related to various components of public internal control framework and internal audit function.

167. According to the good EU practice the central harmonisation role includes⁷⁵:

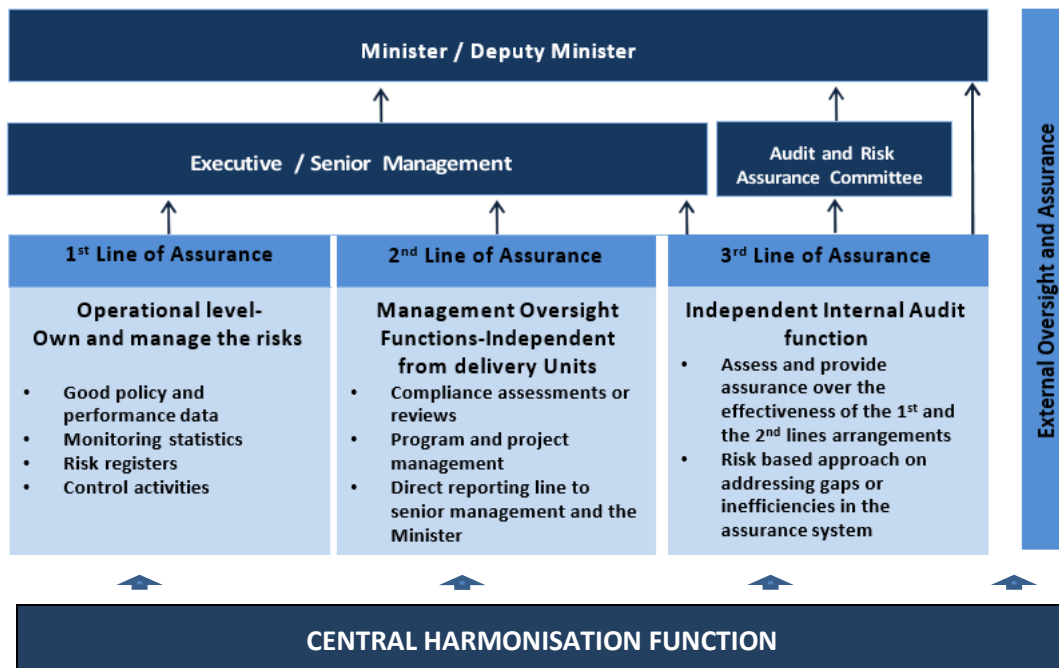
- Raising the awareness of all public sector shareholders (i.e. all management, control and audit levels) towards the internal control.
- Developing and maintaining a network for an adequate exchange of relevant information between its participants.
- Drafting framework or primary legislation to provide the government with a legal basis to introduce the various elements of internal control.
- Providing basic methodological guidance and tertiary regulations like the sample internal audit methodology.
- Monitoring internal control implementation aspects, ensuring the compliance and quality assurance checks on whether its recommendations are being properly carried out and recommending how to overcome any bottlenecks in the implementation of the adopted policies.
- Analysing the annual internal audit and management internal control reports, which facilitate the reporting role of the central harmonisation function to the highest governmental authorities on the progress of internal control throughout the public sector.
- Supporting hiring and nomination of internal auditors and key responsible personnel for internal control; take part in audit committees.
- Coordinating the establishment of sustainable training facilities for the professions and improving the relevant administrative capacities.
- Ensuring close co-ordination and co-operation with the supreme audit institution, professional private organisations (e.g. local IIA) and academic circles.

168. The evaluation of the effectiveness of central harmonisation function is another important part of quality assurance within the entire internal control framework. Its main objective is to develop and maintain procedures for quality assurance and improvement that cover all aspects of the central harmonisation function responsibilities within public internal audit and internal control activities to ensure an adequate/sufficient level of continuous monitoring of internal control effectiveness, covering the whole assurance framework (Figure 3.8).

⁷⁴ EU Public Internal Control systems (2014). Discussion paper - Quality Assurance for internal Audit

⁷⁵ EU Public Internal Control systems (2015). Discussion paper – Central harmonisation function

Figure 3.8. The lines of assurance model in the public sector



Source: Adapted with inputs from a. Federation of European Risk Management Associations (FERMA)/European Confederation of Institutes of Internal Auditing (ECIIA) Guidance on the 8th European Company Law Directive on Statutory Audit DIRECTIVE 2006/43/EC – Art. 41-2b, 2010, b. Institute of Internal Auditors (IIA): Three Lines of Defence Model, 2013, c. Assurance Maps Presentation, PIC EU-28 Conference 2015, d. The three lines of defence in the public sector environment, PIC EU-28 Conference 2017.

169. It is important to ensure that through its monitoring role the central harmonisation function is supporting the necessary sustainable development. Nevertheless, the central harmonisation role could also ensure an adequate self-assessment mechanism and adding value external review. For example, the performance measurement of the central harmonisation function could include the assessment on the impact of the systemic recommendations on how to overcome any bottlenecks in the implementation of the adopted policies and whether its recommendations are being properly carried out.⁷⁶ The Ministry of Finance could also consider developing a central harmonisation evaluation framework to help the central harmonisation function to add value and improve its operations in order to provide assurance that central harmonisation function activity is in conformity with the objectives stated in national legislation and in line with the good practices and international standards.

170. As mentioned before, there are different approaches to such a kind of evaluation: internally by self-assessment of the central harmonisation function and externally by the Supreme Audit Institution, institutional managerial review process, international review, etc. It is also essential to identify the best practice within and outside the government sector, underlying where existing skills and knowledge are deficient and how the administrative capacities have to be developed to maintain the required level of quality (Box 3.3). In essence it is advisable for the central harmonisation function to:

⁷⁶ EU Public Internal Control systems (2014). Discussion paper – Quality Assurance for internal Audit

- identify necessary proficiencies e.g. a practical effective approach to systems based auditing,
- identify current shortfalls,
- work in and with individual units to impart and spread expertise,
- monitor progress and act in an advisory, analytical and oversight capacity,
- carry out ongoing quality assurance to ensure standards are being met and maintained.

Box 3.3. The State Internal Audit Harmonisation Committee (CHAIE) in France

Managing policy management risks is an important component of new public management in France. Many of the stakeholders have set up internal audit systems that cover the entire scope of public management. This movement is supported by major international organisations and the European Commission.

As implemented in France, this system is in line with the overall dynamic of modernisation of public action initiated by the government. It is based on ministerial accountability and a participatory approach with public servants, both at the risk mapping development stage and at the conduct of each audit. The audit is also the necessary complement to the evaluation: one ensures that the priority objectives will be achieved, the other verifies the adequacy of the objectives to the needs. In both cases, it is a question of providing decision-makers with the light they need to make choices.

In this context of affirming the control of risks related to policy management and generalising internal audit, the CHAIE has **a triple function**:

- *define* the reference framework for the internal audit of the State, common to all ministries,
- *to bring it to life*, by supporting the action of ministries and by networking the community of auditors,
- *monitor and evaluate* its proper implementation.

Through its coordination and support to ministerial structures, the CHAIE contributes in a concrete and operational way, to the development of a global internal audit system that is among the best practices in Europe and internationally.

The Article 1 of the Decree No. 2011-775 of 28 June 2011 aims to generalise internal audit to all functions and professions of ministries. It provides that "in each ministry, an internal control and audit system, adapted to the missions and the structure of the services and aimed at ensuring the control of the risks related to the management of the public policies for which these services are responsible, is put in place and implemented". In this context, the State Internal Audit Harmonisation Committee is an inter-ministerial committee responsible for coordinating, supporting and monitoring the development of internal audit in the State administration. CHAIE has defined a reference framework for state internal audit system, common to all ministries and based on the international reference framework for professional internal audit practices (CRIPP) published by the Institute of Internal Auditors (IIA).

In July 2019, the CHAIE signed a partnership with the French Anti-Corruption Agency (AFA) around the deployment of corruption risk management within State administrations. This partnership aims for a reciprocal contribution of expertise and exchanges of information on subjects of common interest such as internal audit and the risks of damage to probity.

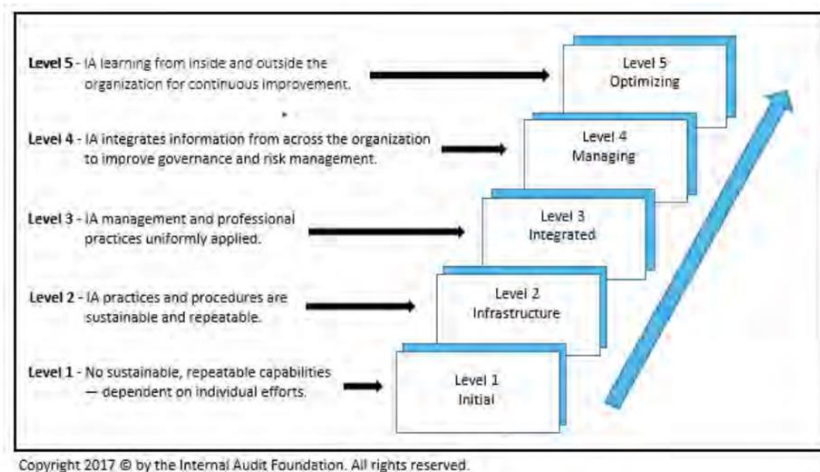
Source: State Internal Audit Harmonisation Committee, State Internal Audit Reference Framework, <https://www.economie.gouv.fr/chaie/cadre-reference-laudit-interne-letat>; <https://www.economie.gouv.fr/chaie/presentation-chaie>

171. With the establishment of a group of experts and decision makers at the government level it could be possible to carry out systemic coordination and monitoring of horizontal interest with multi-sectoral or multi-departmental implications. The Ministry of Finance could also consider establishment of the central audit commission (at central and or regional levels), which whilst carrying out its legislated commitments should ensure internal control and internal audit development matters to be progressed without any unnecessary delay.⁷⁷

172. Considering different maturity levels of internal audit in different organisations, the central harmonisation function could consider supporting external quality assessments of the internal audit by using the IIA's Internal Audit Capability Model (IA-CM) for the Public Sector⁷⁸, which is a representative model for assessing the maturity of individual internal audit function. As mentioned above, to support the internal audit quality development, the Ministry of Finance has prepared a tool for internal and external assessment, "Quality@w", available to all internal auditors and this tool could be improved by using the IA-CM.

173. The IA-CM defines the basic elements necessary for effective internal audit the public sector and classifies the development of internal audit into five stages according to the level of implementation of these elements. At level 1, the performance of internal audit depends on the individual competence of the internal auditor without well-established standards and processes. Level 2 is the stage where internal audit practices and procedures are established, and a certain level of audit performance begins to be maintained. At level 3, audit practices and procedures are established, internal audit results are accepted as useful to auditees, and audit results begin to be actively used to improve the operation of organisation. At level 4, internal audit provides a more holistic view, encompassing governance and risk management throughout the organisations. At the final stage, level 5, it is a stage that contributes to improving the efficiency of the organisation operations by going one step further than identifying weaknesses in risk management. (Figure 3.9)

Figure 3.9. IIA's Internal Audit Capability Model for the Public Sector



Source: The IIA Research Foundation

⁷⁷ [Compendium of the public internal control systems in the EU Member States 2014 \(europa.eu\)](https://eura.europa.eu/en/publications-and-communications/compendium-of-the-public-internal-control-systems-in-the-eu-member-states-2014)

⁷⁸ [Internal Audit Capability Model for the Public Sector \(theiia.org\)](https://theiia.org/)

174. Considering the observations of different stakeholders regarding the implementation of the quality assurance mechanism throughout the country, the central harmonisation function at the Ministry of Finance could consider integrating quality assurance to its monitoring, methodological and guidance role, which could enable to carry out a more dynamic pro-active role in developing internal audit in the country's government. This role could:

- encourage, develop and document best practice,
- assist in the training of the staff,
- review and evaluate the ongoing progress of functioning of internal audit, and of internal control systems based on actual and full scope data,
- take an active role in supporting the audit committees,
- exploit the capability to perform audits of horizontal interest with multi-sectoral or multi-departmental implications (delegated audits),
- consider involvement of internal audit in the development of new control systems and in reviewing the progress of it.

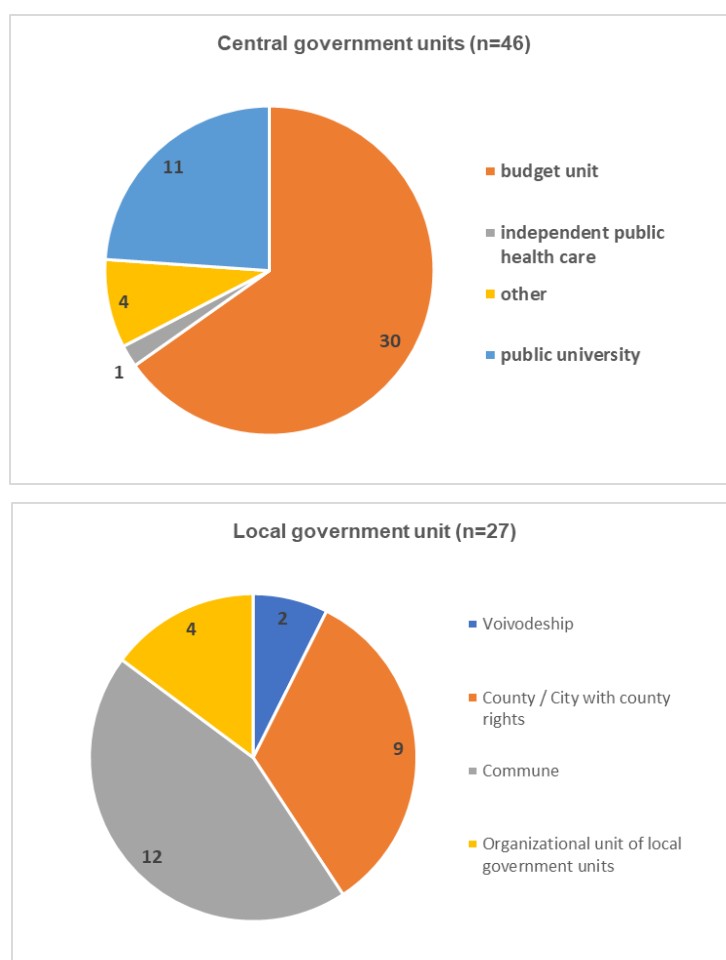
175. The annual benchmarking by the central harmonisation function via consolidation of the annual reporting process of the internal audit units is advancing well in Poland and provides much information on the work and organisation of internal audit activities. Nevertheless, the desk research and interviews with different stakeholders revealed that the Ministry of Finance has not enough capacity to ensure the country wide coverage, including actual data analysis, systematic and regular monitoring and quality assurance. The central harmonisation function could also more actively use the annual (accountability) reports on internal control and internal audit to draw conclusions and make recommendations for systemic actions that could help to advance internal audit, internal control and risk management. This could be helpful for the deliberations with other authorities and help the central harmonisation function to have a necessary mandate for its country-wide activities and programmes.

176. The central harmonisation function of Poland is advancing, technically competent and has accomplished many development objectives. More work could be needed to keep standards, guidance and advice updated to constantly developing good practices and to cover the coordination of the implementation of the legal framework throughout the entire public sector. For this purpose, it could review its needs assessment plans to ensure the adequate strengthening of administrative capacities that could support meeting new objectives. Considering this and taking into account the constant development efforts, fostering the sustainable improvements and good practices, the central harmonisation function in principle is capable to meet this ongoing challenge.

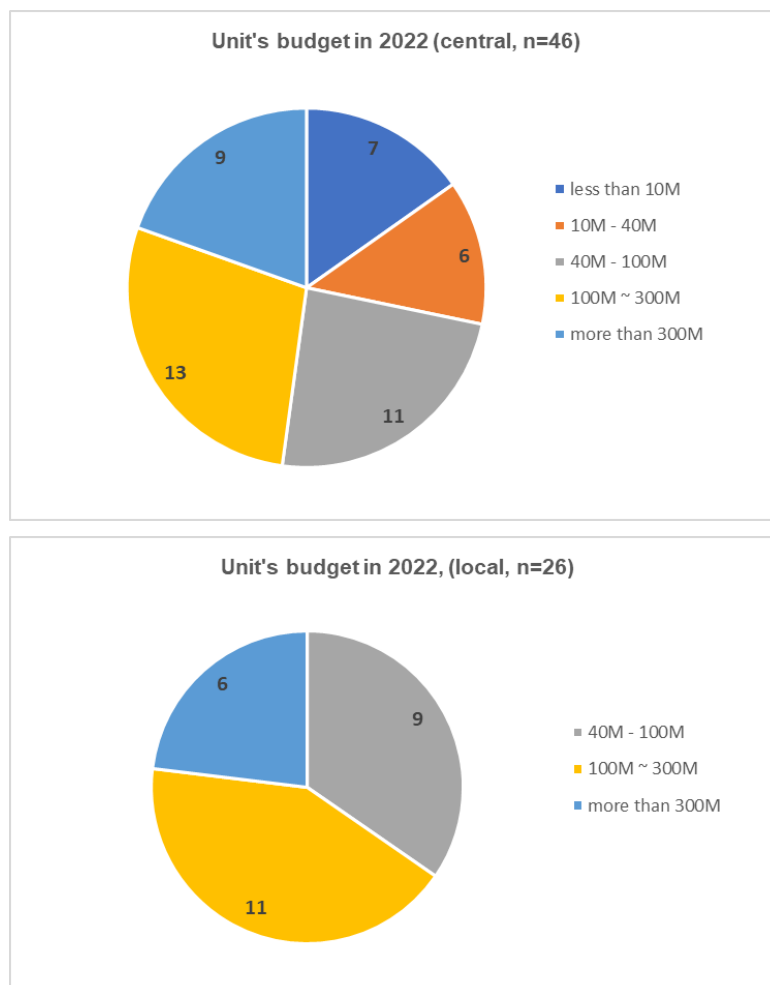
Annex A. Survey results

Respondents' characteristics

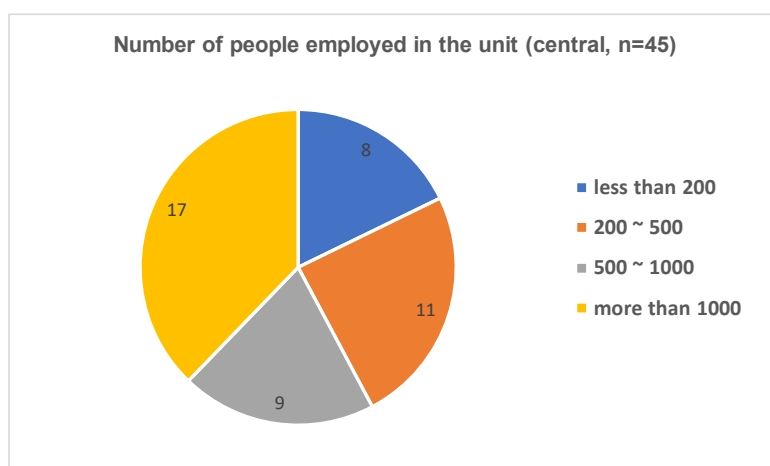
1. Types of government units

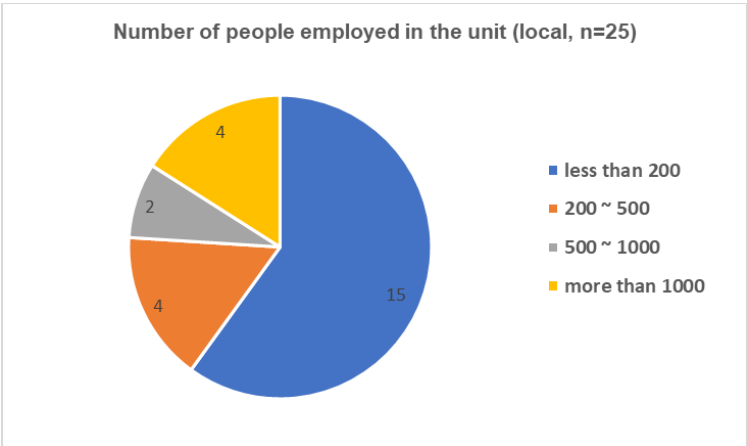


2. Unit's budget in 2022 (in PLN)

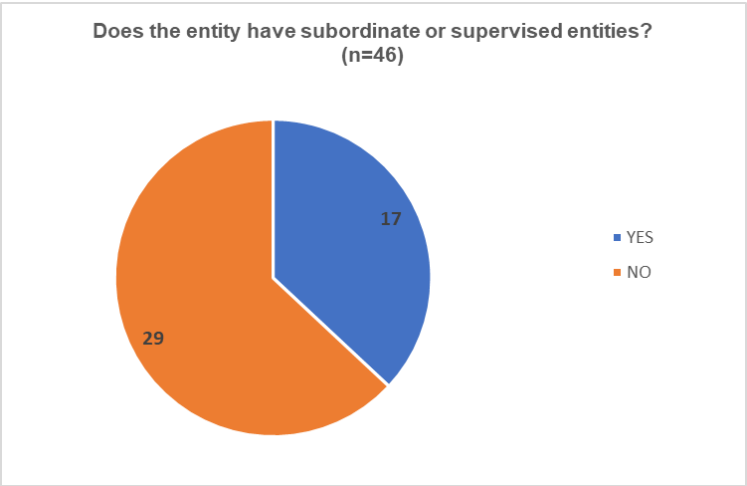


3. Number of people employed in the unit (also applies to persons on duty)

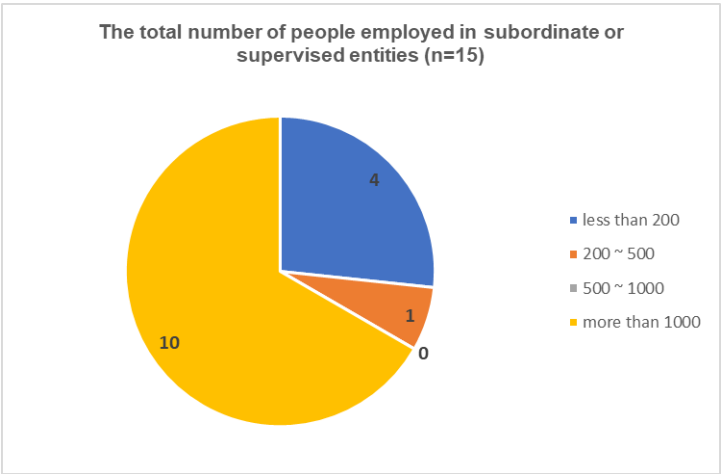




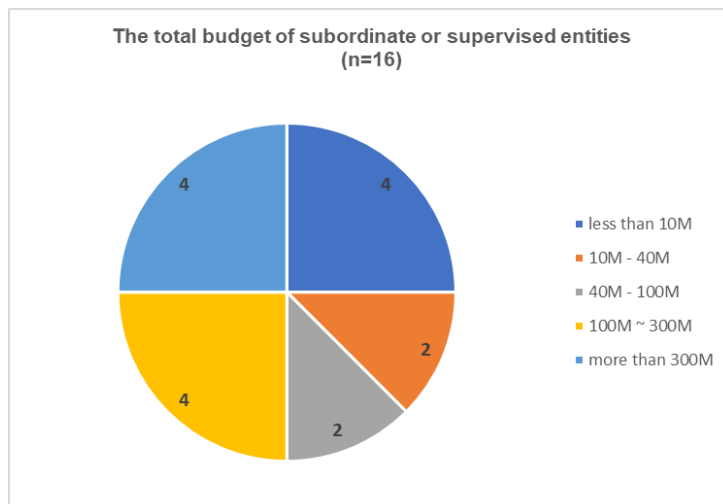
4. Does the entity have subordinate or supervised entities (only for central government units)?



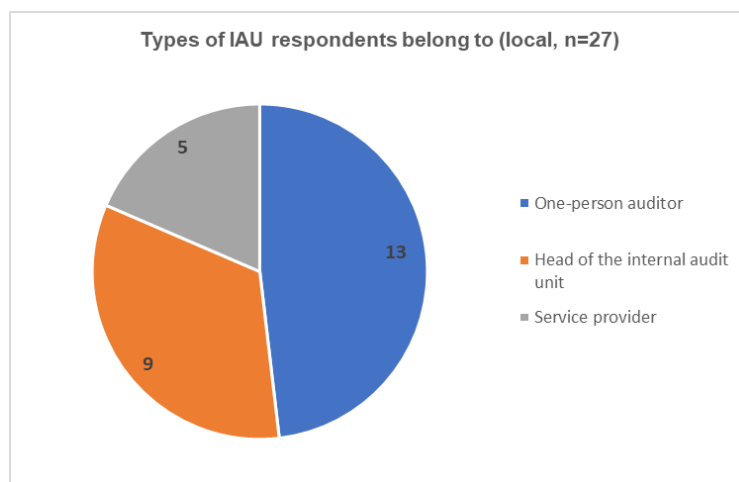
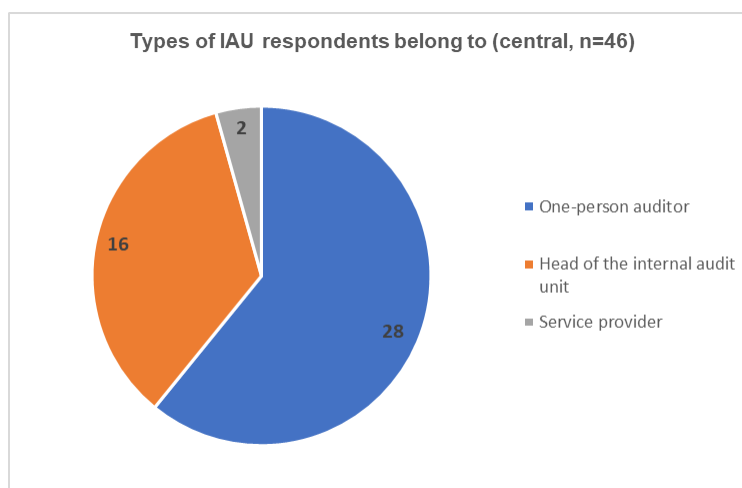
5. The total number of people employed in subordinate or supervised entities (only for central government units)



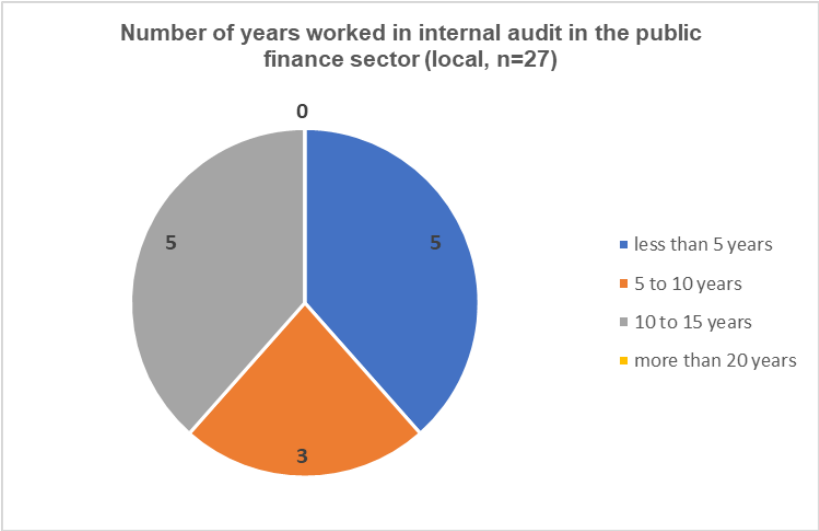
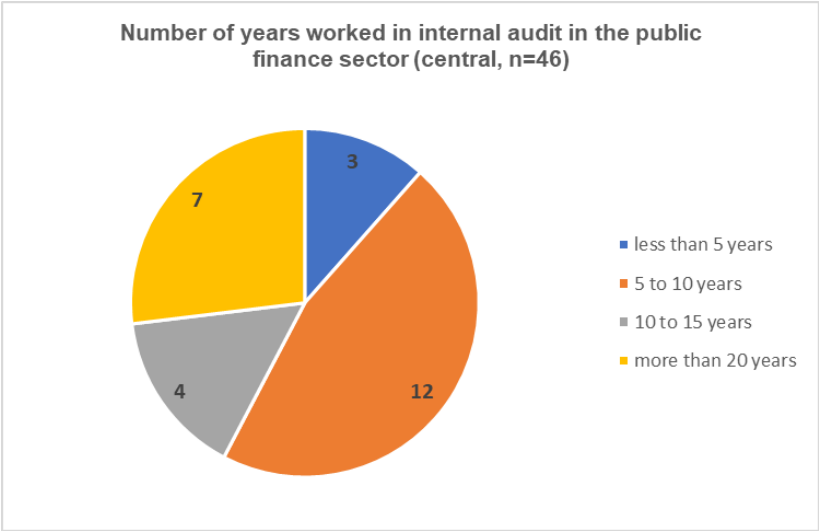
6. The total budget of subordinate or supervised entities (only for central government units)



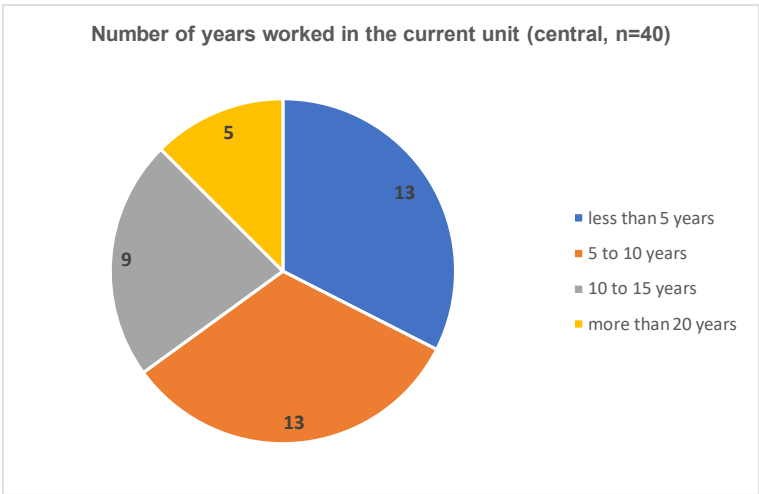
7. Position held at the Internal Audit Unit (IAU)

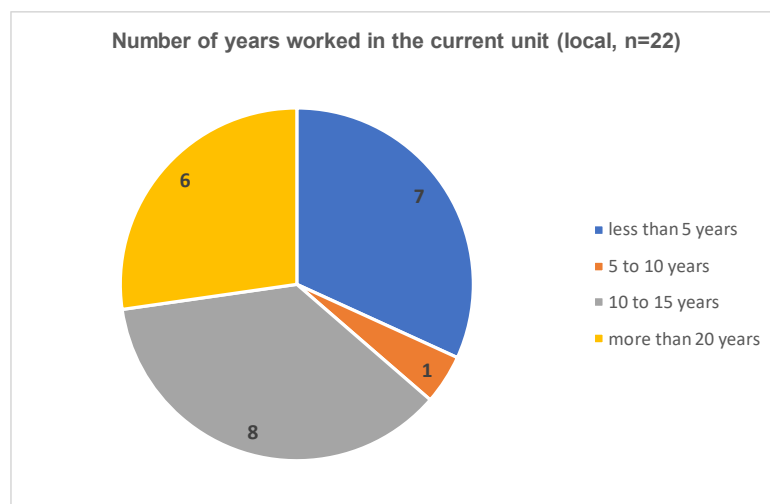


8. Number of years worked in internal audit in the public finance sector

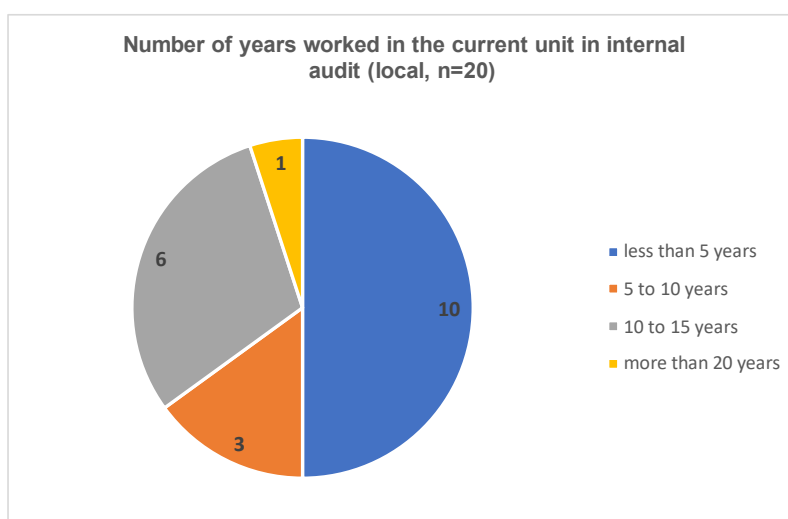
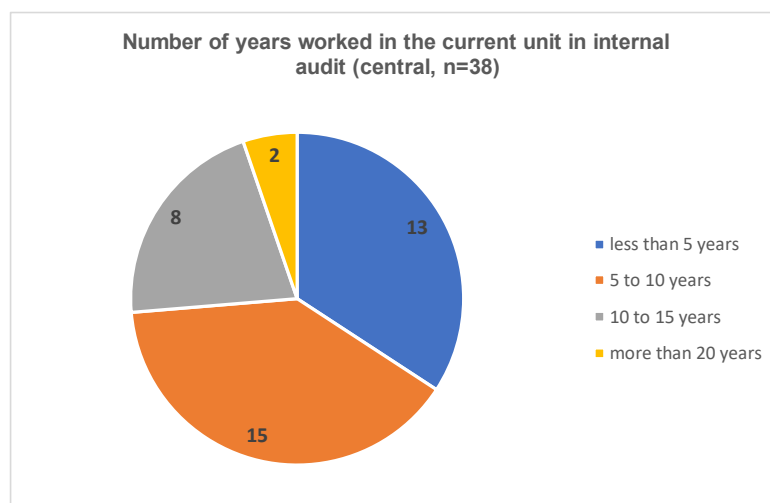


9. Number of years worked in the current unit





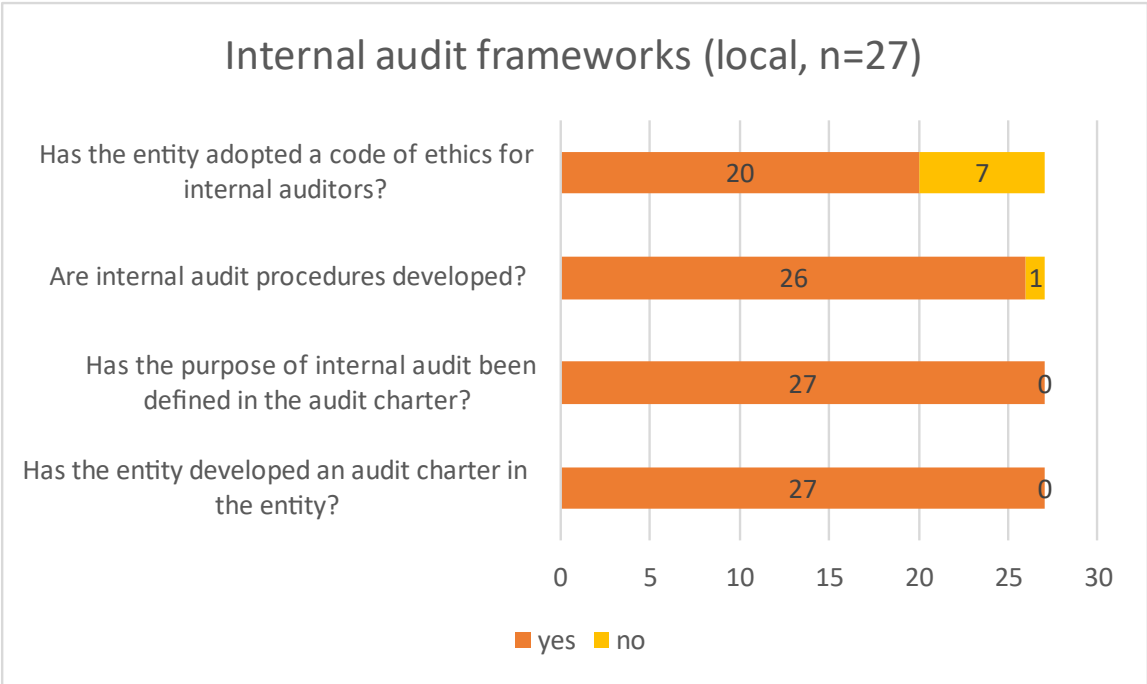
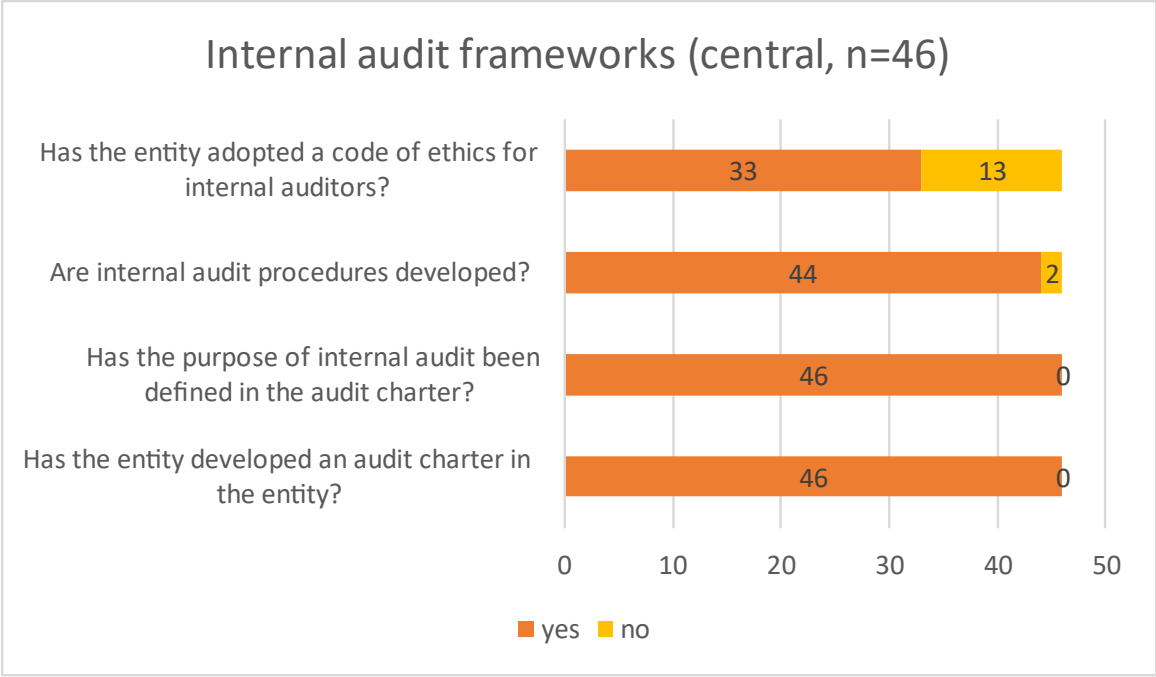
10. Number of years worked in the current unit in internal audit



Analysis of responses

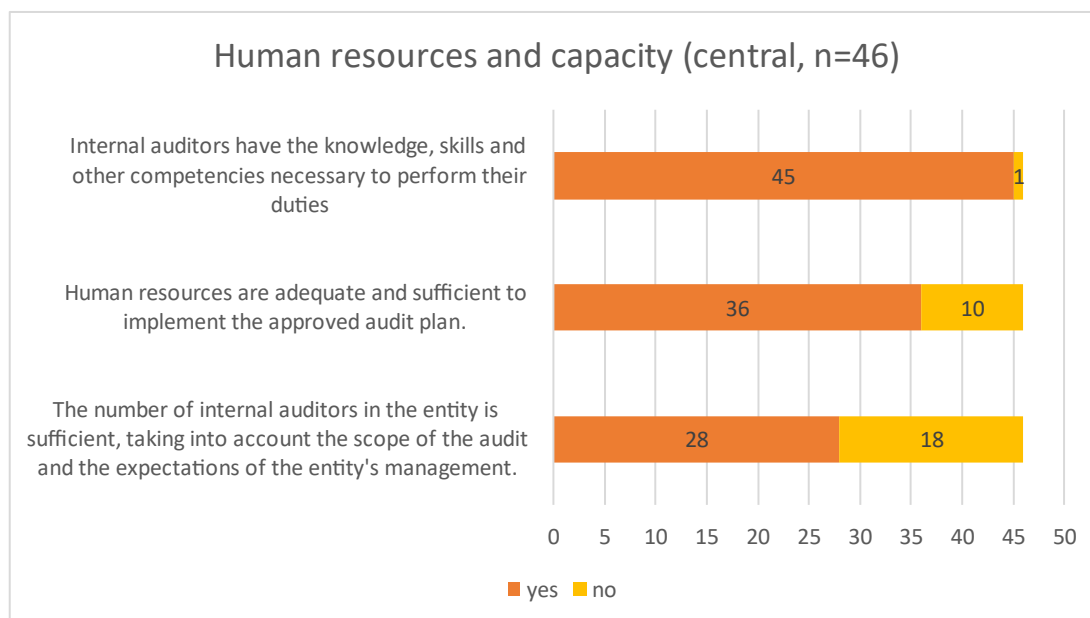
Internal audit frameworks

- Although most organisations had an internal audit charter and audit procedure regulations, about one-third did not have a code of ethics for internal auditors both in central and local government units.

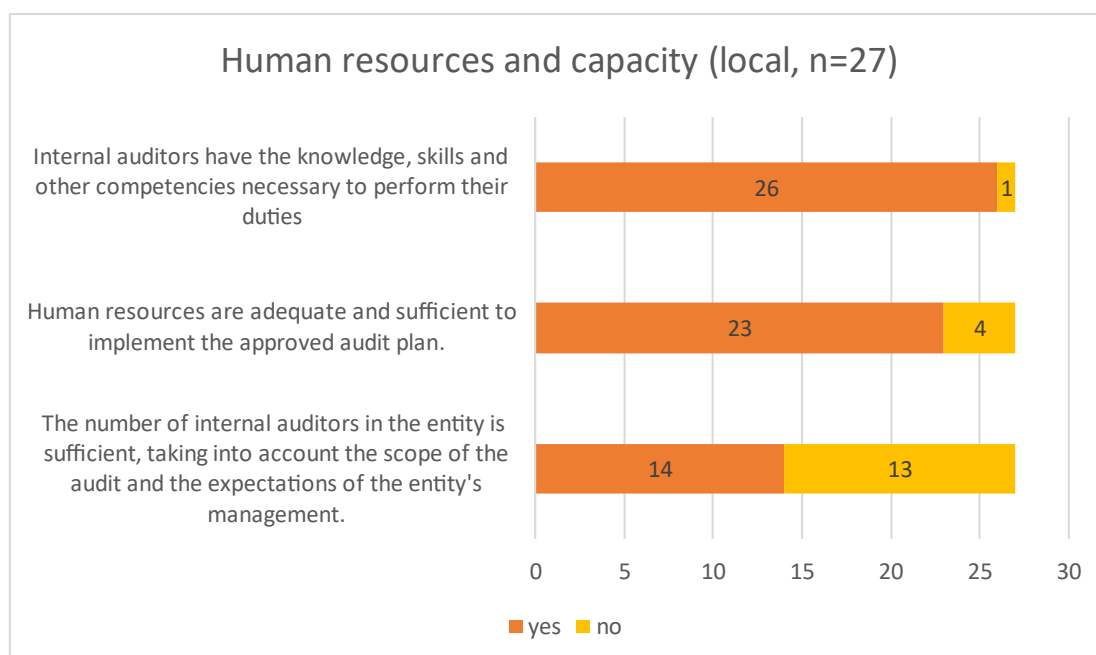


Internal audit human resources and capacity

- About 40% of respondents in central government units said the current number of internal auditors is insufficient to meet management expectations, and about 20% say there are insufficient staff to implement the currently approved audit plan.
- Regarding the competence of internal auditors, most of them were evaluated as having sufficient competence both in central and local government units.

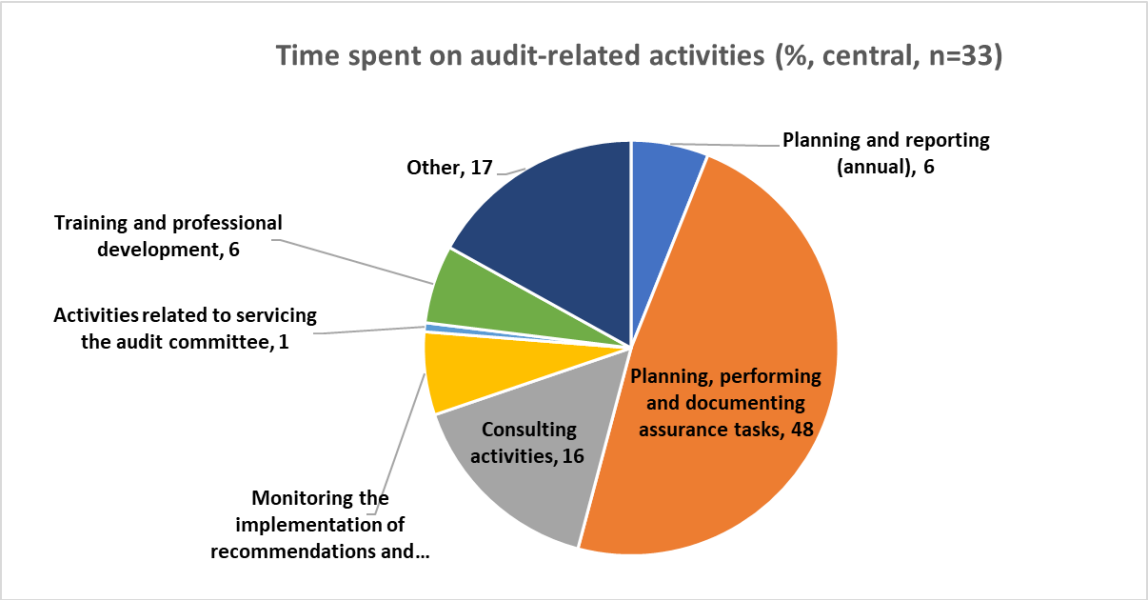


- In local government units, about half of the opinion was that the number of auditors was insufficient. This suggests that the problem of insufficient auditors is likely to be more serious in local governments than in central governments.

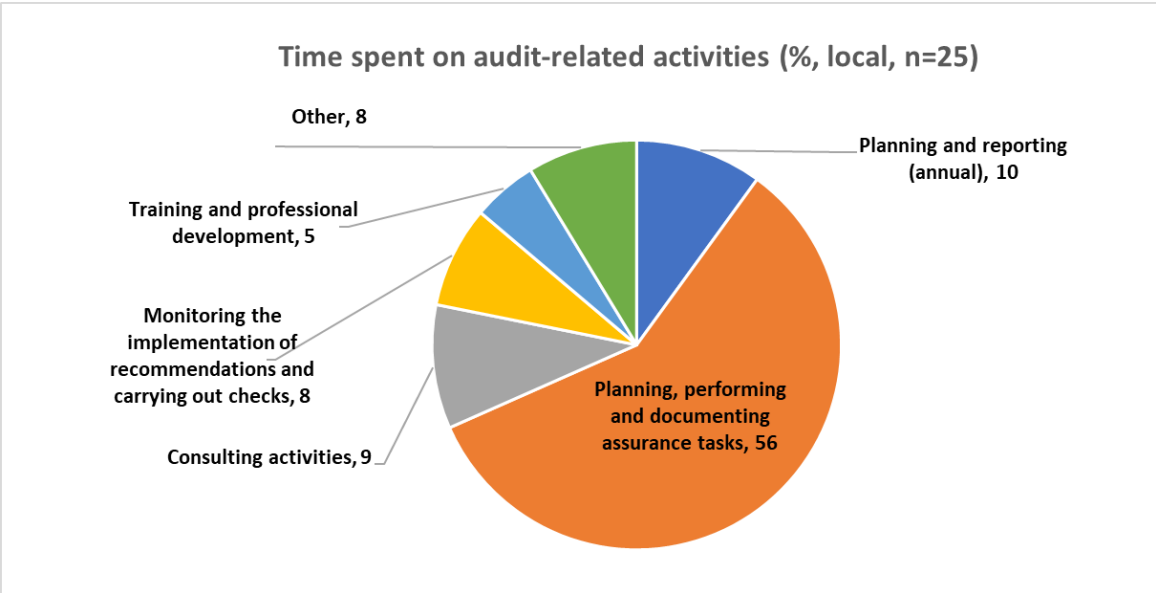


Allocation of human resources

- Auditors in central government units spent about half of their time on audit engagement execution and about 16% on consulting activities (note: the time spent to prepare the audit committee was found to be very small, as a few respondents had an audit committee in their entity, as it is relevant only to ministries. Data from 2021 annual reports of the ministries indicated that on average about 8 % of time was spent on servicing audit committees).

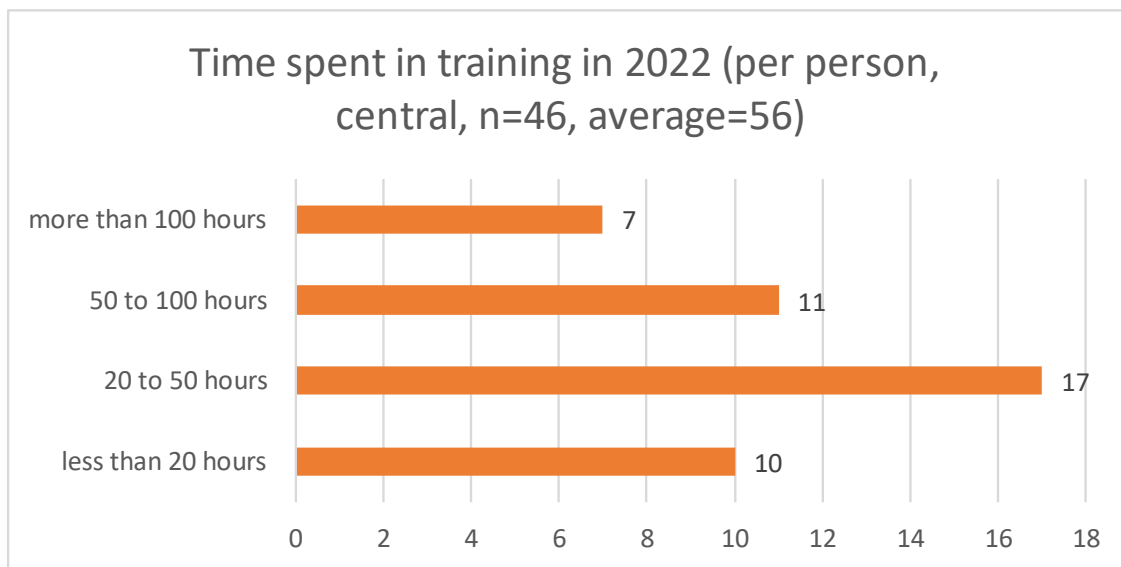


- Internal audit units within local governments spent relatively more time on audit engagements, but the overall trend was not much different from that of the central government.

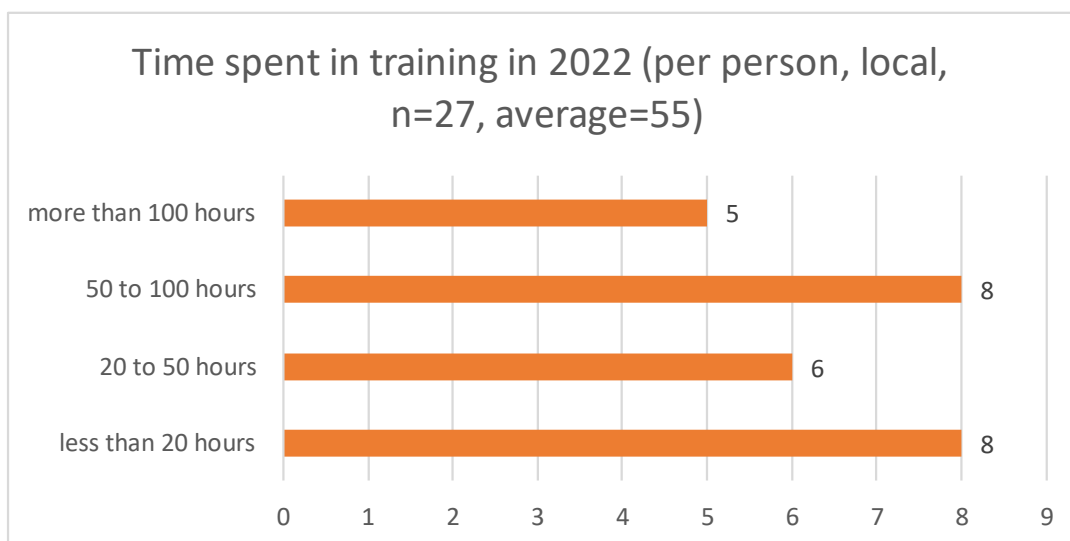


Time spent in training of auditors

- Internal auditors in central government units spent an average of 56 hours per year on training. About one-fifth had less than 20 hours of training per year.

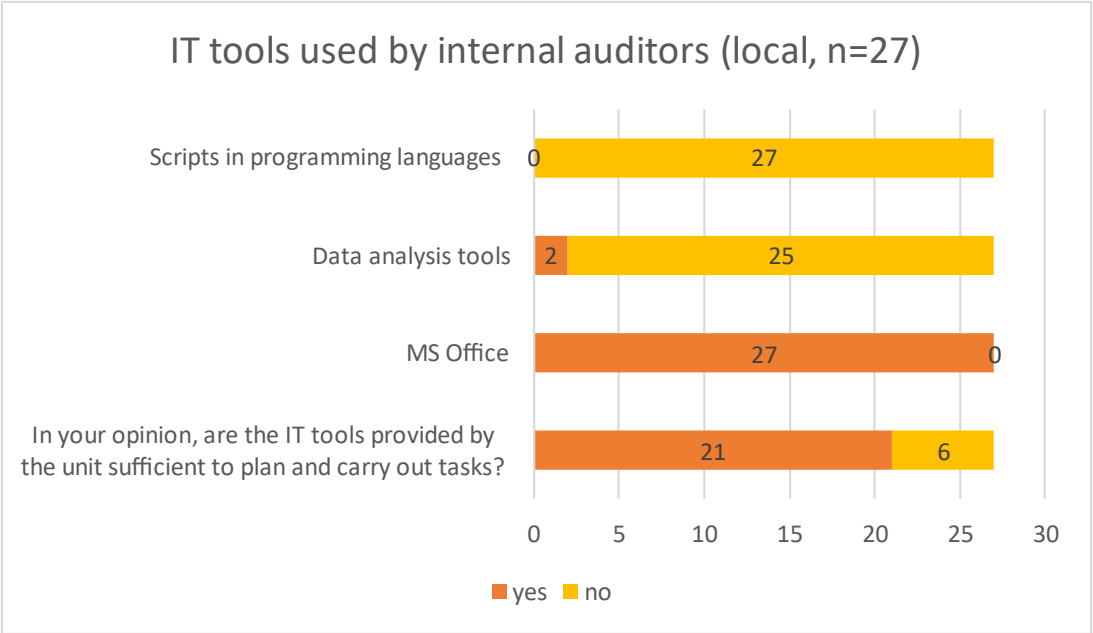
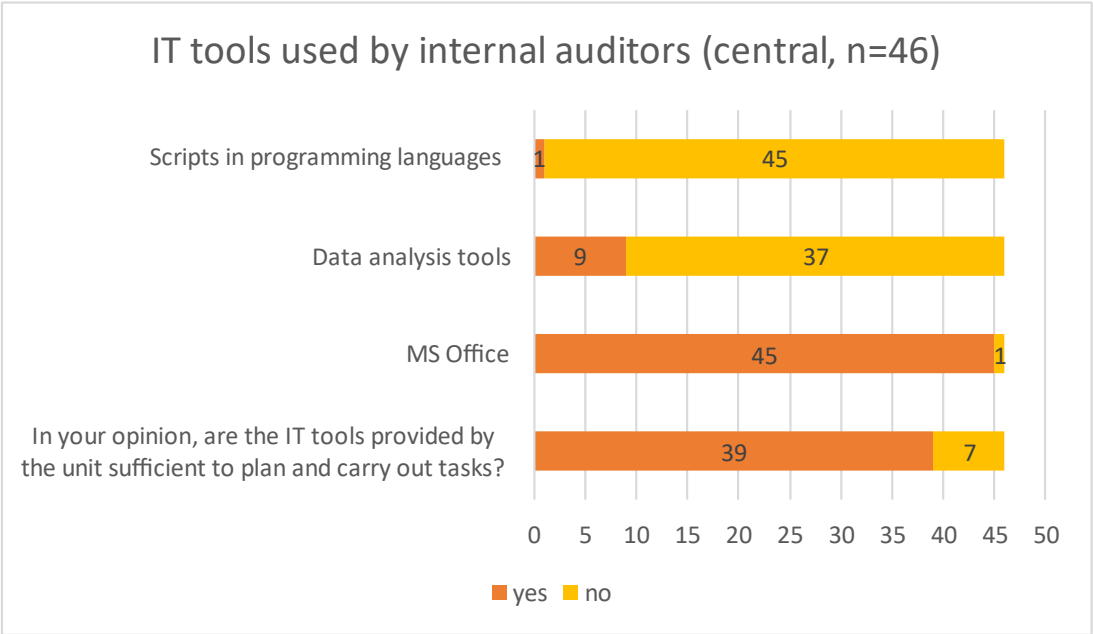


- The average training time per auditor in local government was about 55 hours, and there was no significant difference between central and local governments.



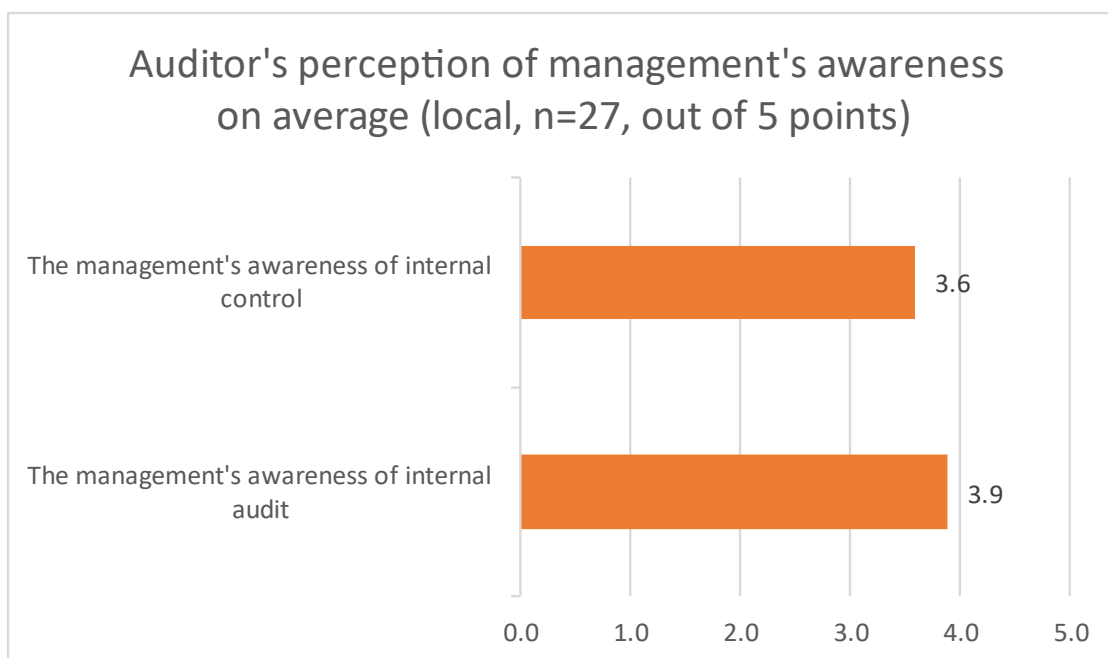
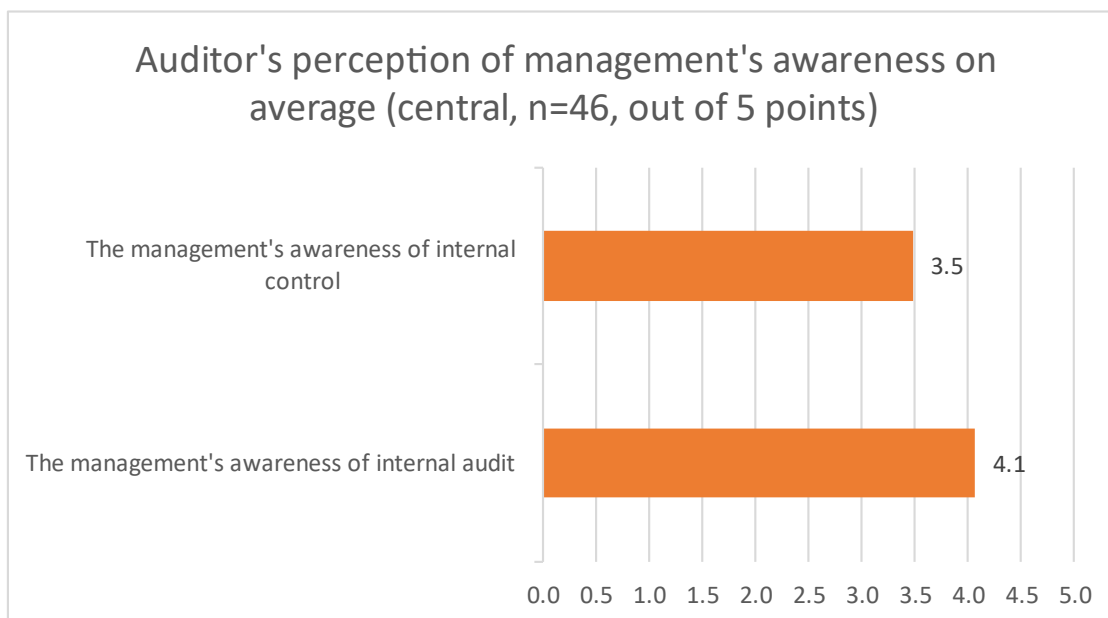
Use of IT tools

- Most respondents were using office applications, but only about one-fifth used data analysis tools. In addition, more than 80% of respondents answered that they are provided with sufficient tools, indicating that they are not very aware of the need to use data analysis tools.



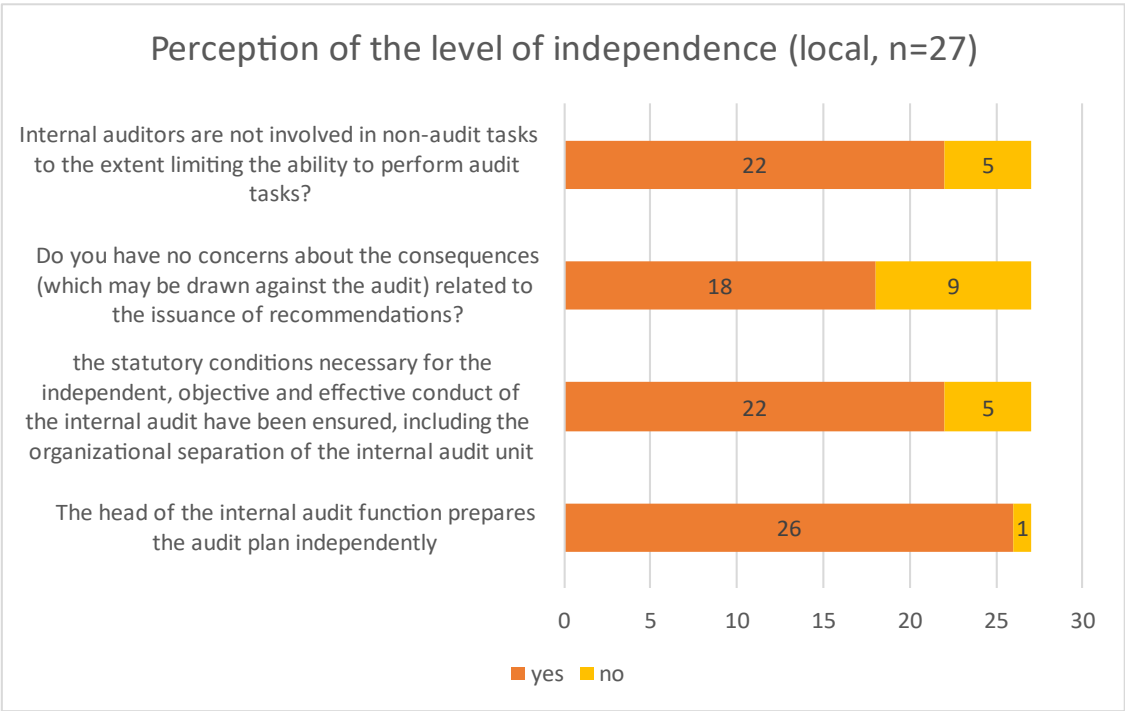
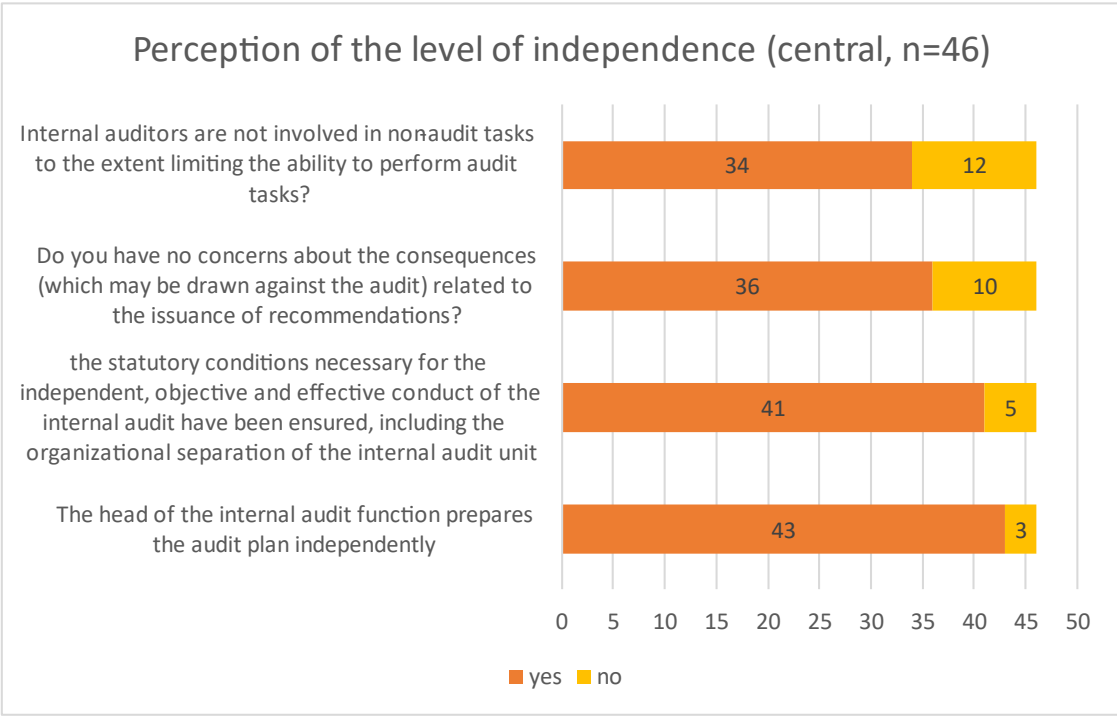
Managements' awareness of internal audit and internal control

- In both central and local government units, internal auditors rated management's level of awareness of the internal audit function as about 4 out of 5 on average. Management's level of awareness of internal control was relatively low at about 3.5 points.

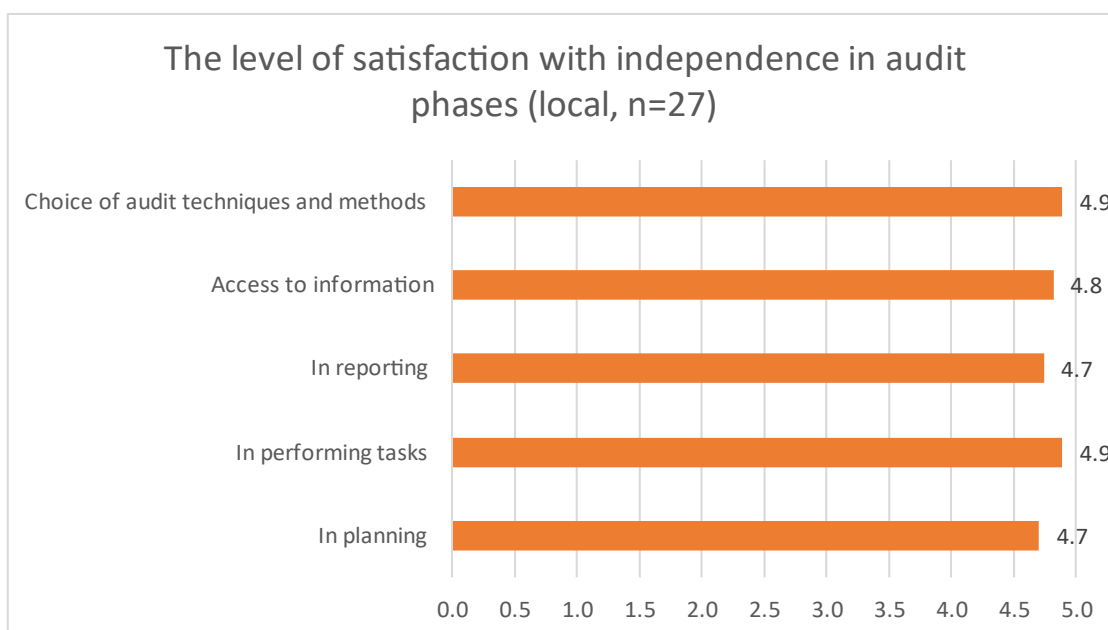
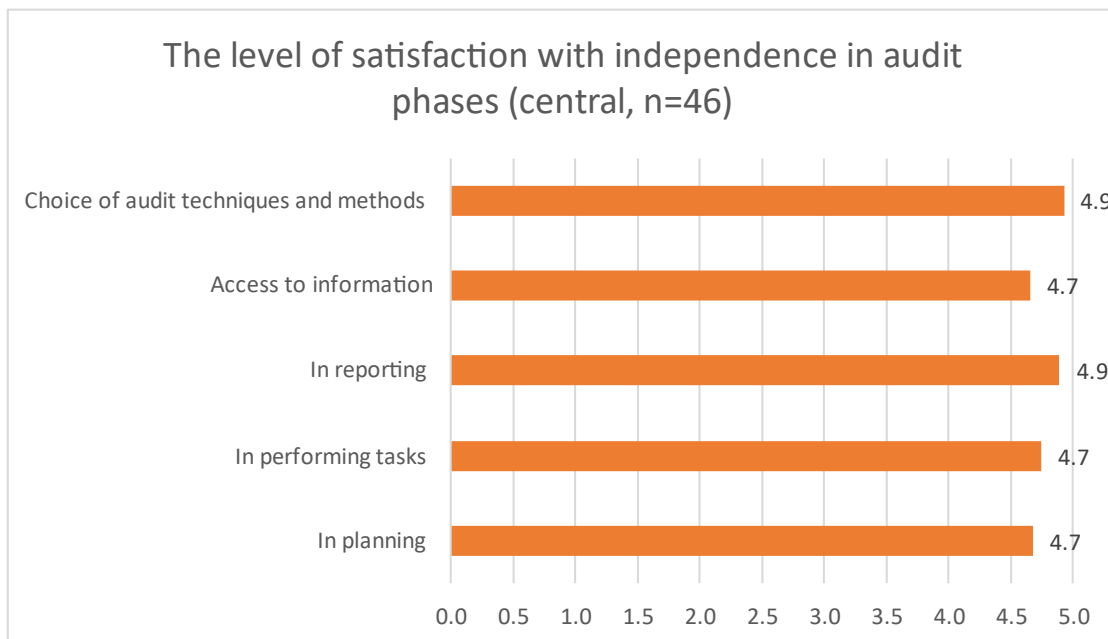


Independence and audit committee

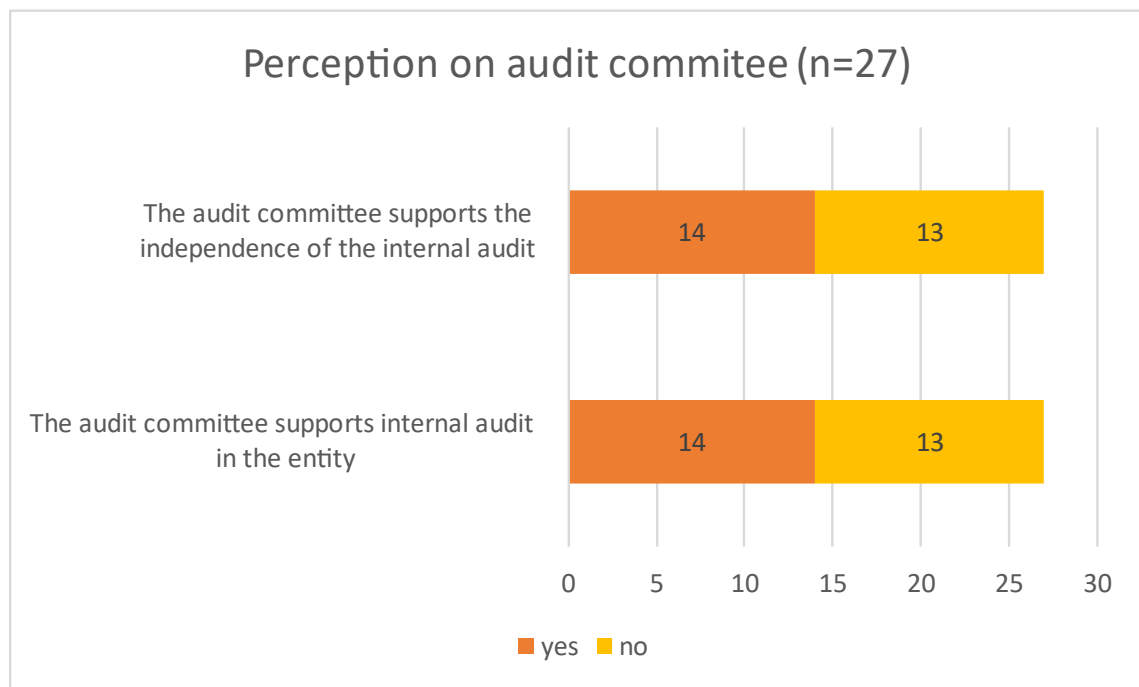
- Most of the internal auditors answered that their independence is guaranteed in the establishment and implementation of the audit plan. However, about 20-30% of respondents answered negatively with concerns about the results of audit recommendations and involvement in non-audit work that could limit audit performance.



- Most respondents were satisfied with the level of independence in audit planning, implementation, reporting, access to information, and choice of audit methods.

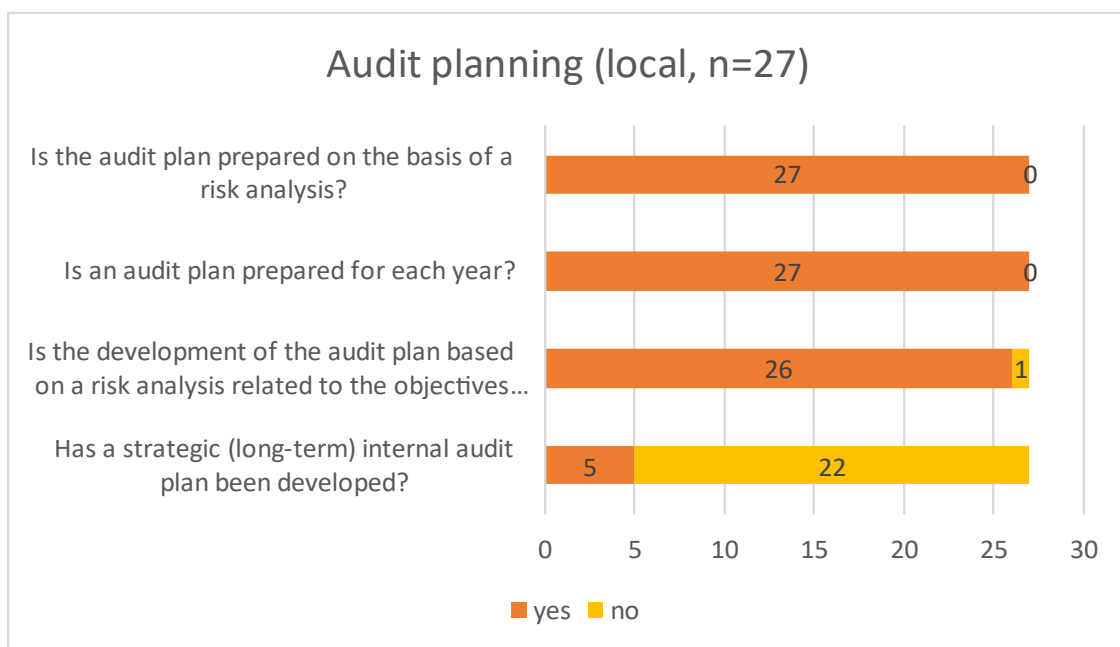
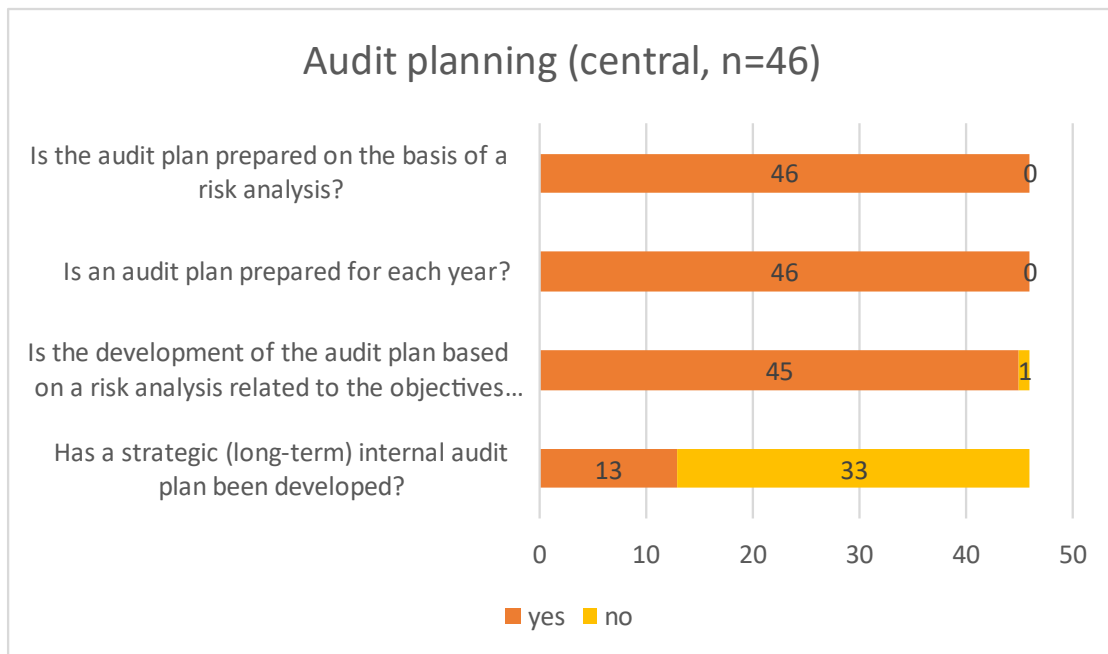


- Half of the respondents responded negatively to the question of whether the audit committee supports audit independence and audit activities (note: applicable only in ministries).



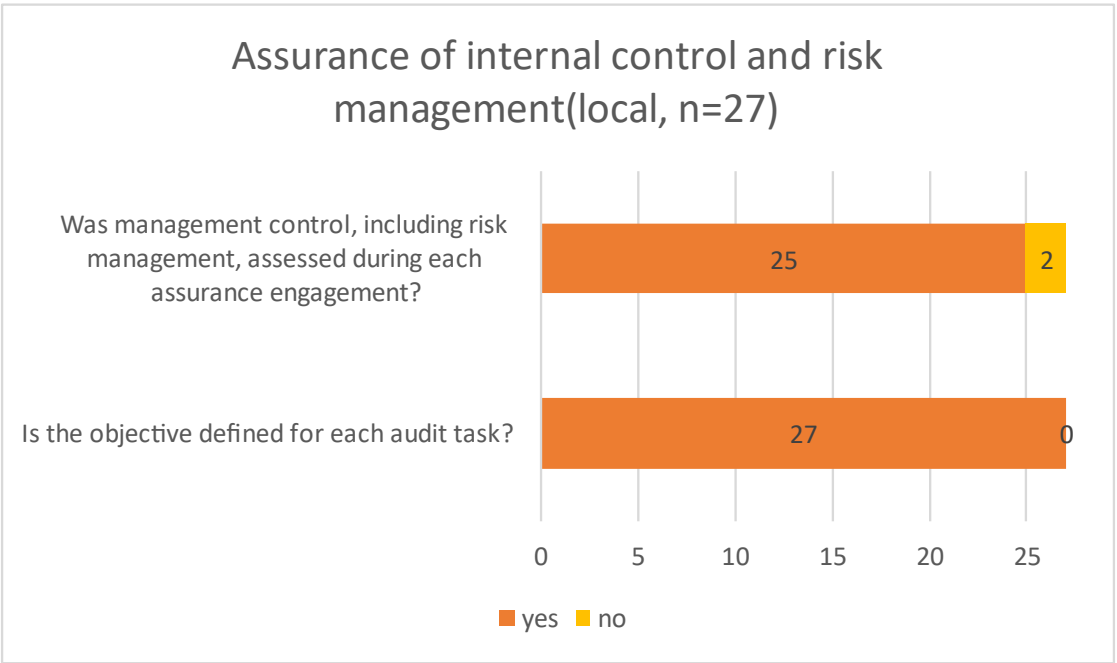
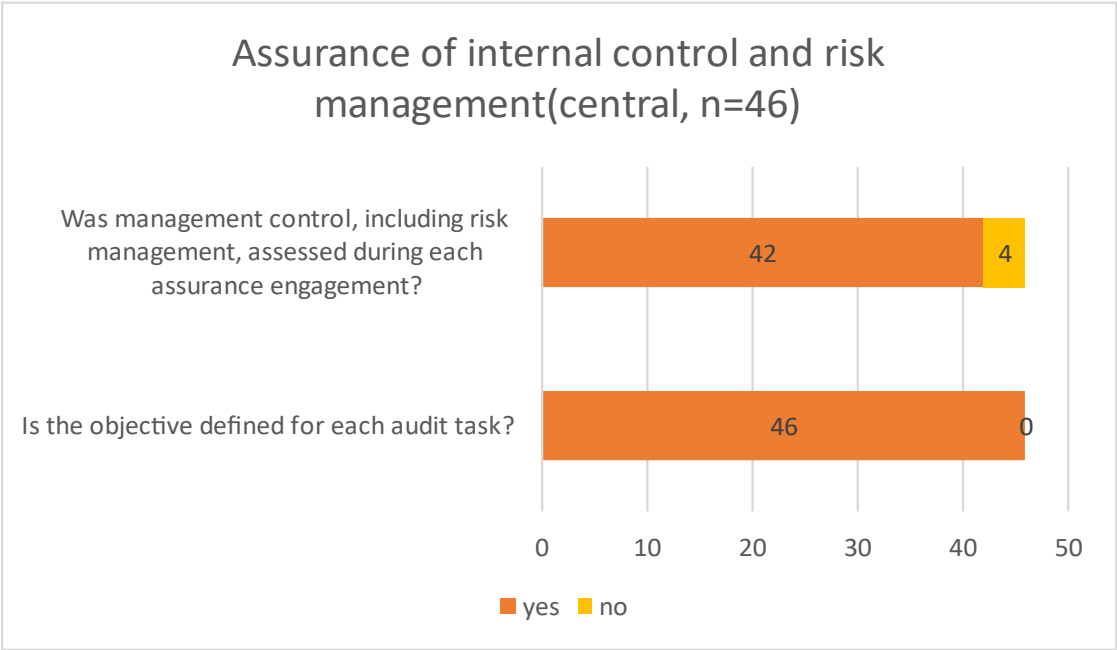
Audit planning

- Nearly all respondents indicated that they are developing an annual audit plan that takes into account risk analysis and entity objectives each year. In contrast, only about 20% of IAUs have strategic (long-term) plans in both central and local governments.

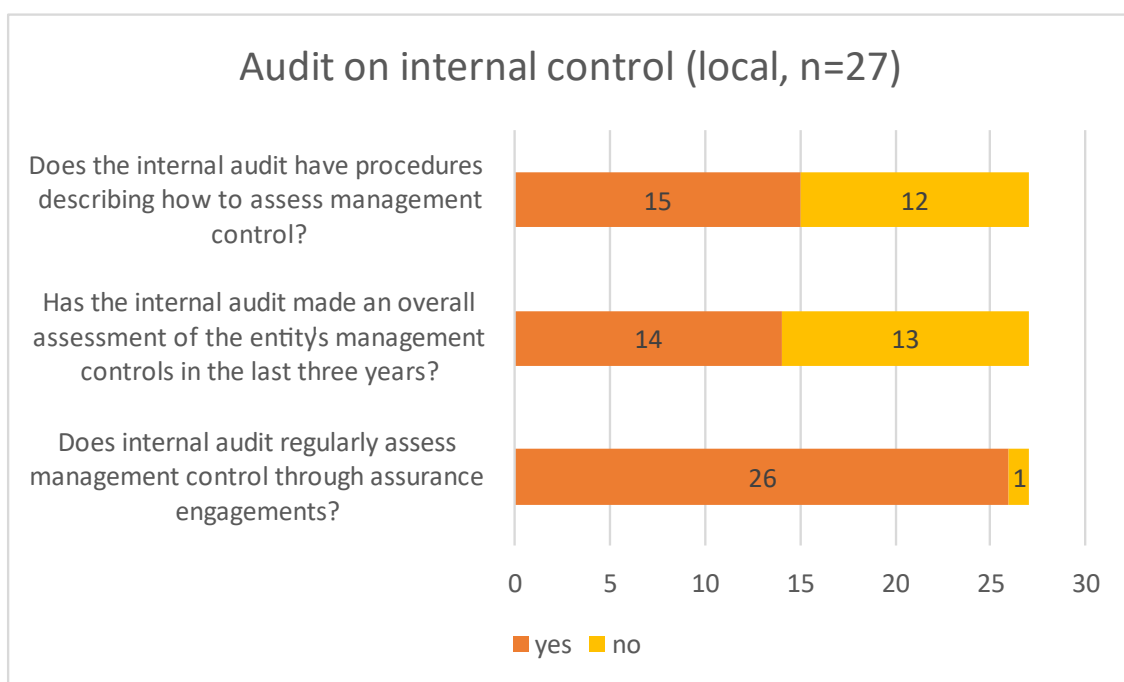
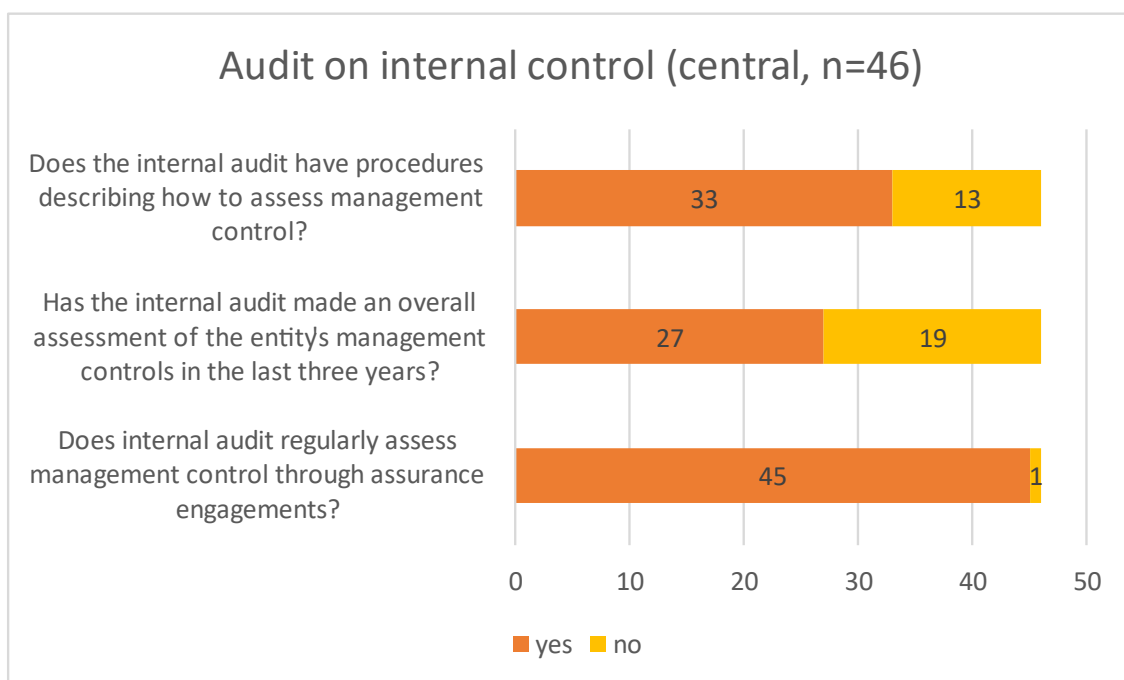


Assurance of internal control and risk management

- Both central and local government units set objectives for each audit and were found to be conducting assessments of internal controls and risk management during most assurance engagements.

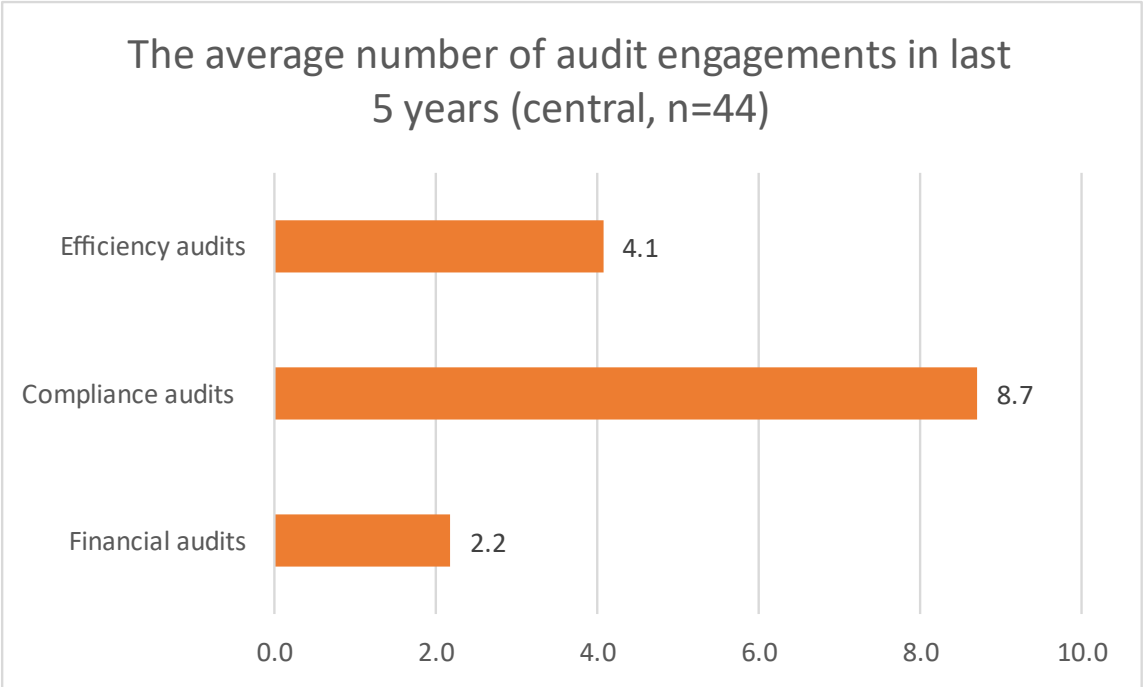


- Internal auditors responded that they regularly assess internal control through assurance engagements, but only about three-fifths of them made an overall assessment. About one-third of entities do not have procedures for assessing internal controls.

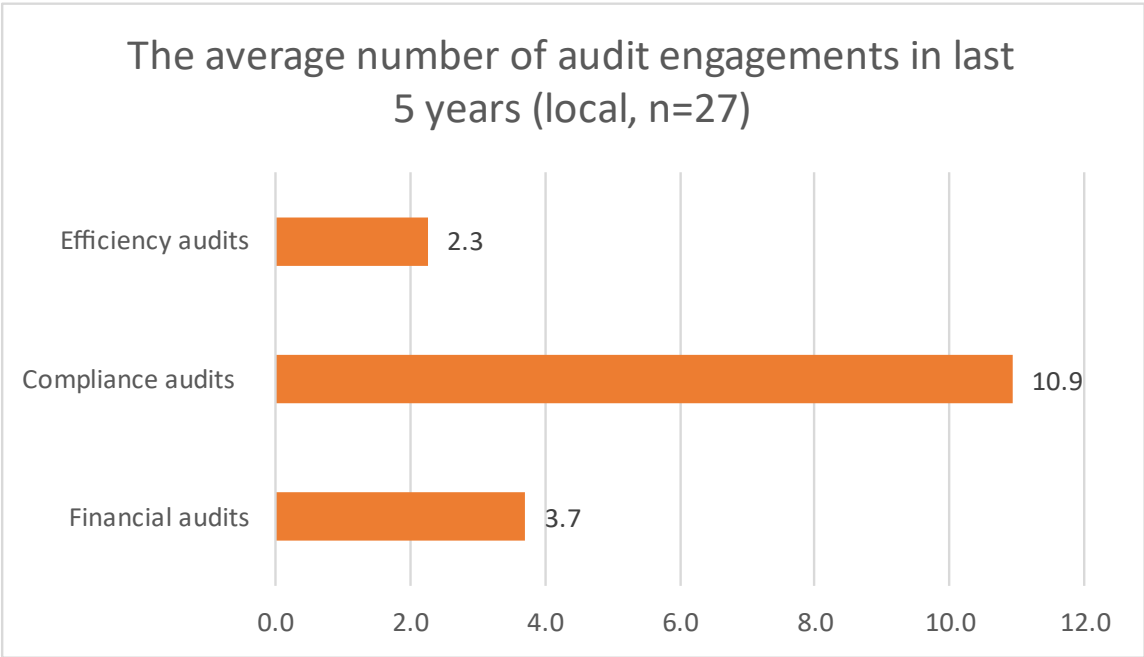


Types of audit engagements

- Central administrative IAUs have conducted, on average, about 9 compliance audits, 4 efficiency audits, and 2 financial audits over the past five years, indicating that the proportion of compliance audits is relatively high.

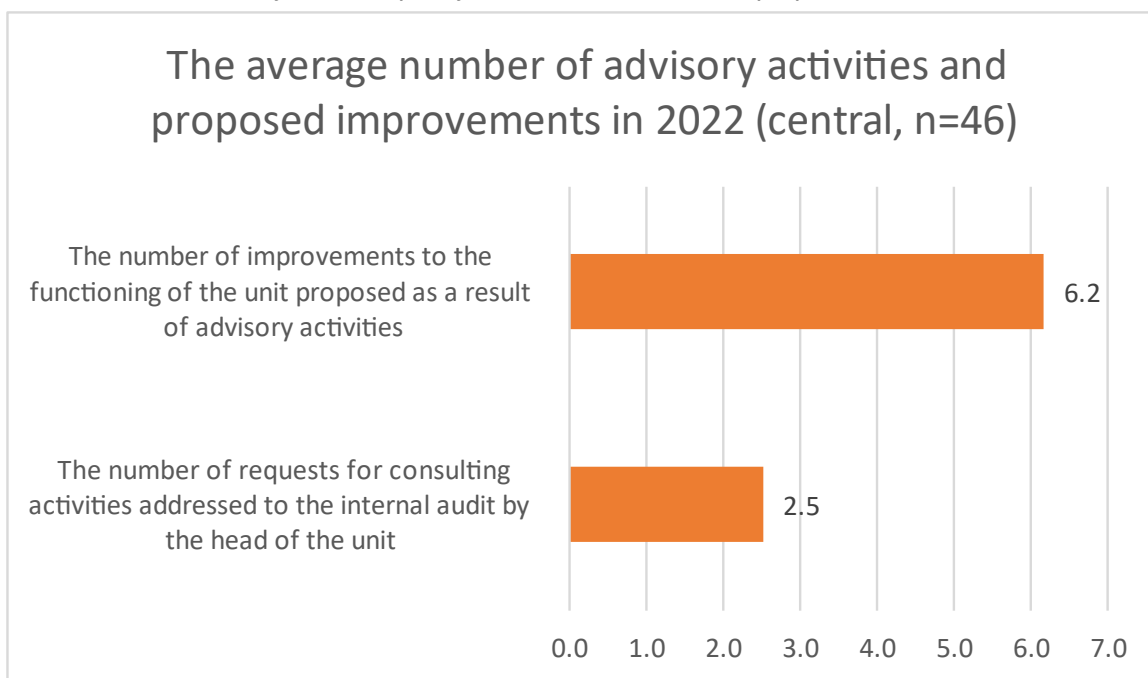


- Similarly, in local government IAUs are more oriented to compliance audits.

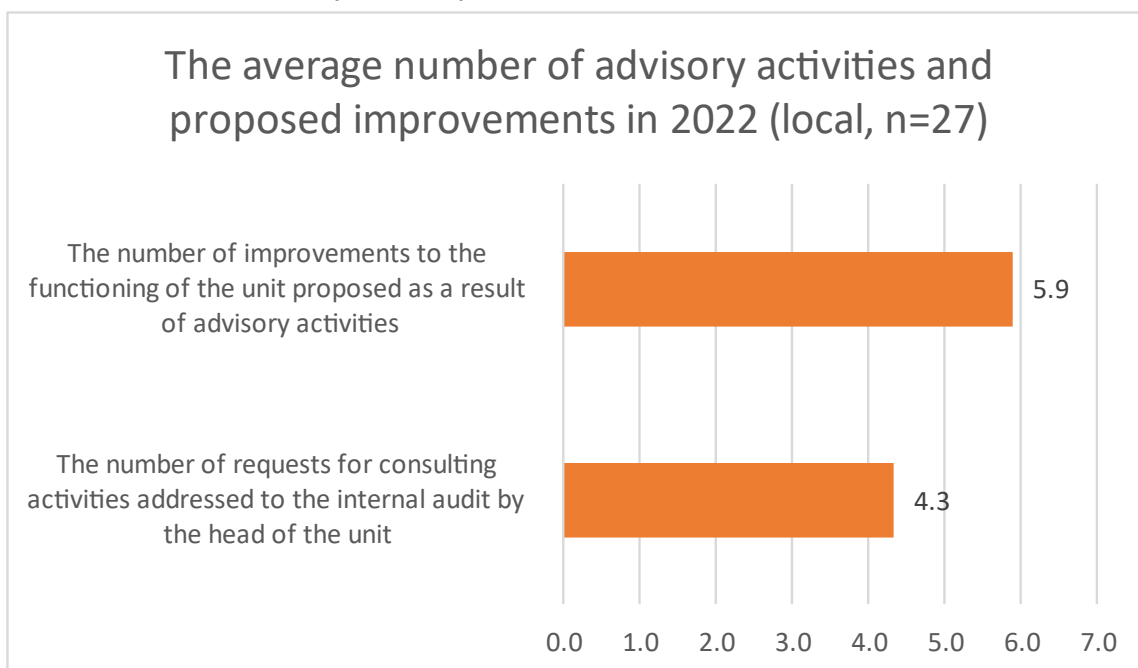


Advisory activities

- Central administrative IAUs received, on average, about 2.5 requests for consulting activities from the head of the entity over the past year and made about six proposals.

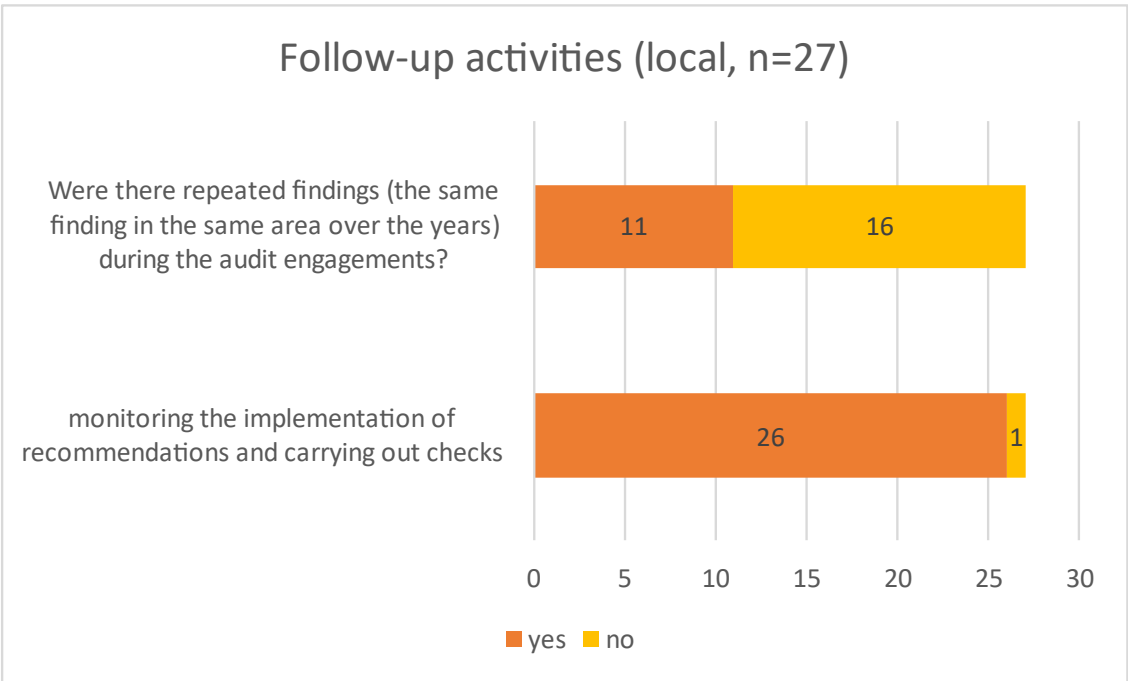
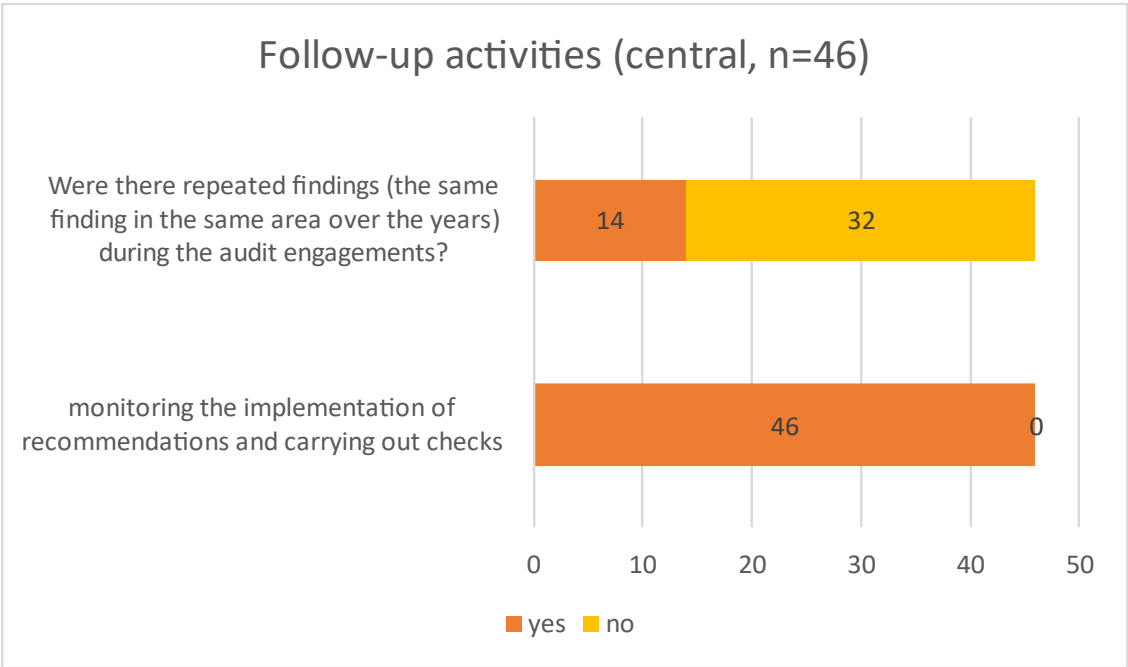


- In local government, the demand of the head of the entity for the internal audit unit's advisory role is higher than in central administrations. IAUs have received about 4 requests of consulting activity from the head of the entity over the year.

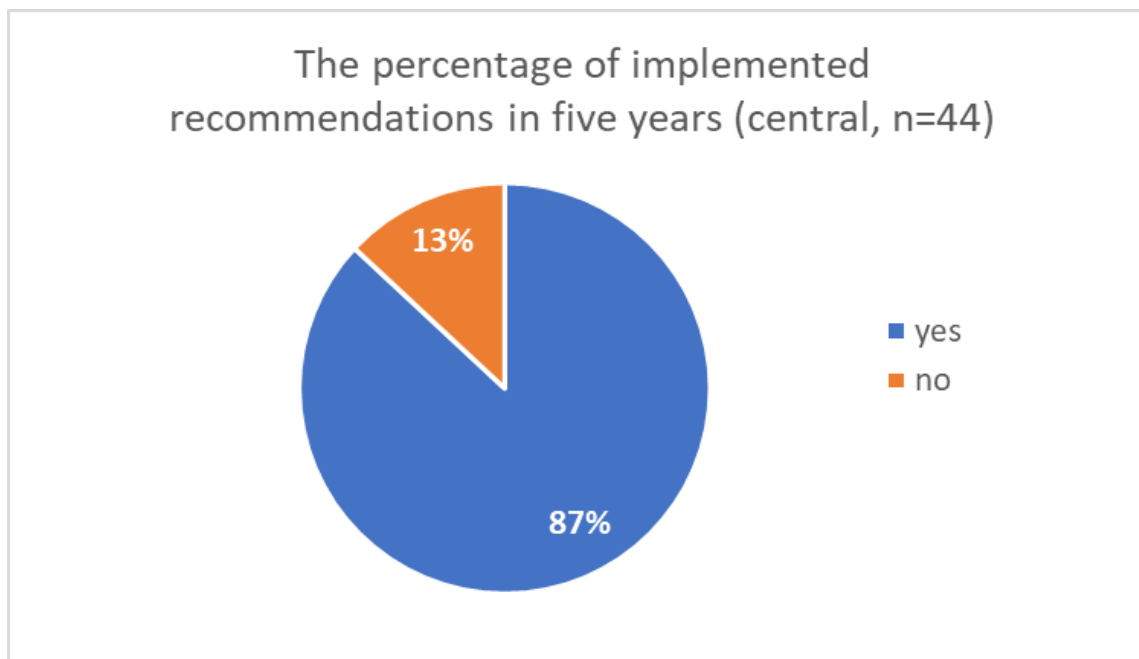


Follow-up activities and implementation of recommendations

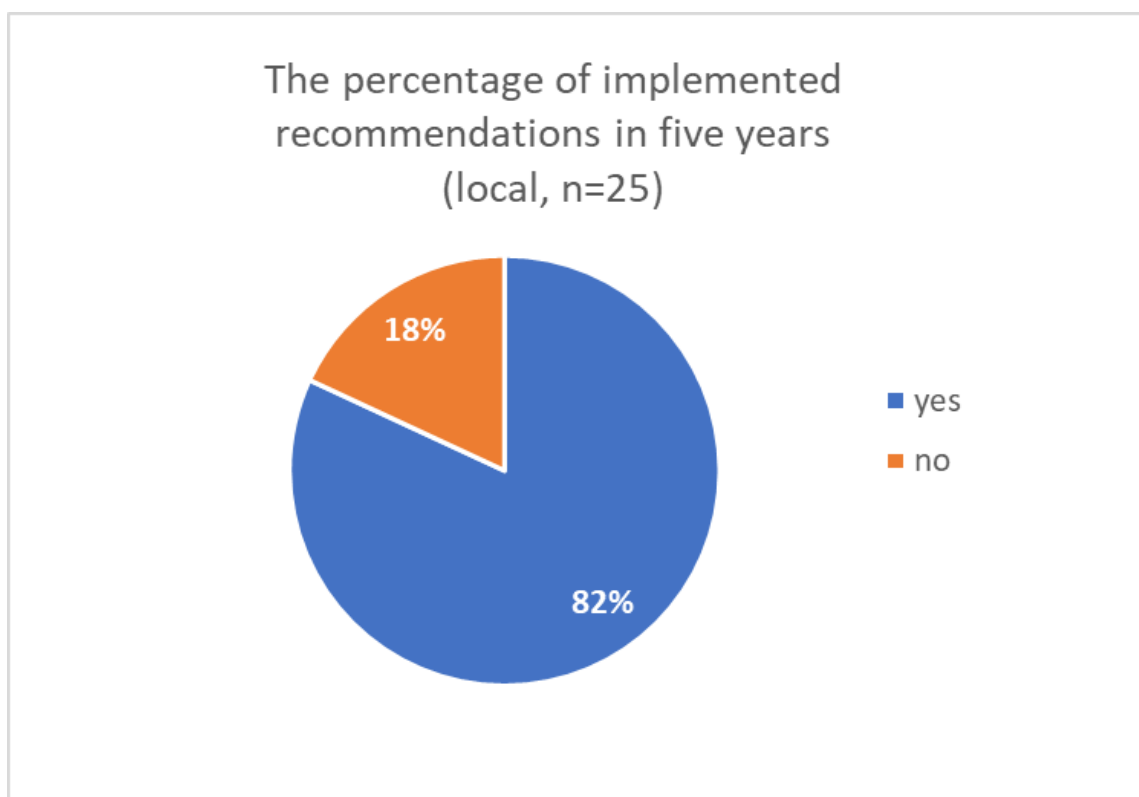
- In both central and local government, respondents indicated that they are monitoring internal audit recommendations. About a quarter of respondents said the same finding was repeated over the years, suggesting the insufficient implementation of audit recommendations.



- In central government units, respondents indicated that most (87%) of the audit recommendations were being implemented.

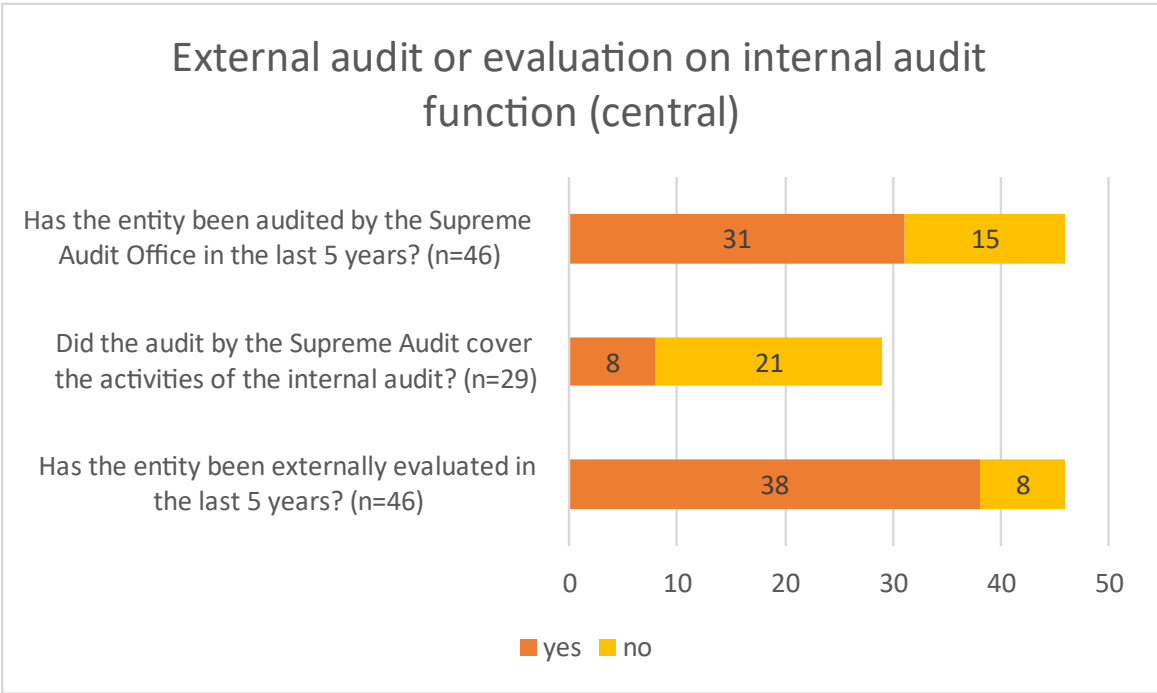


- In local government units, the implementation rate of the audit recommendations was about 82%.

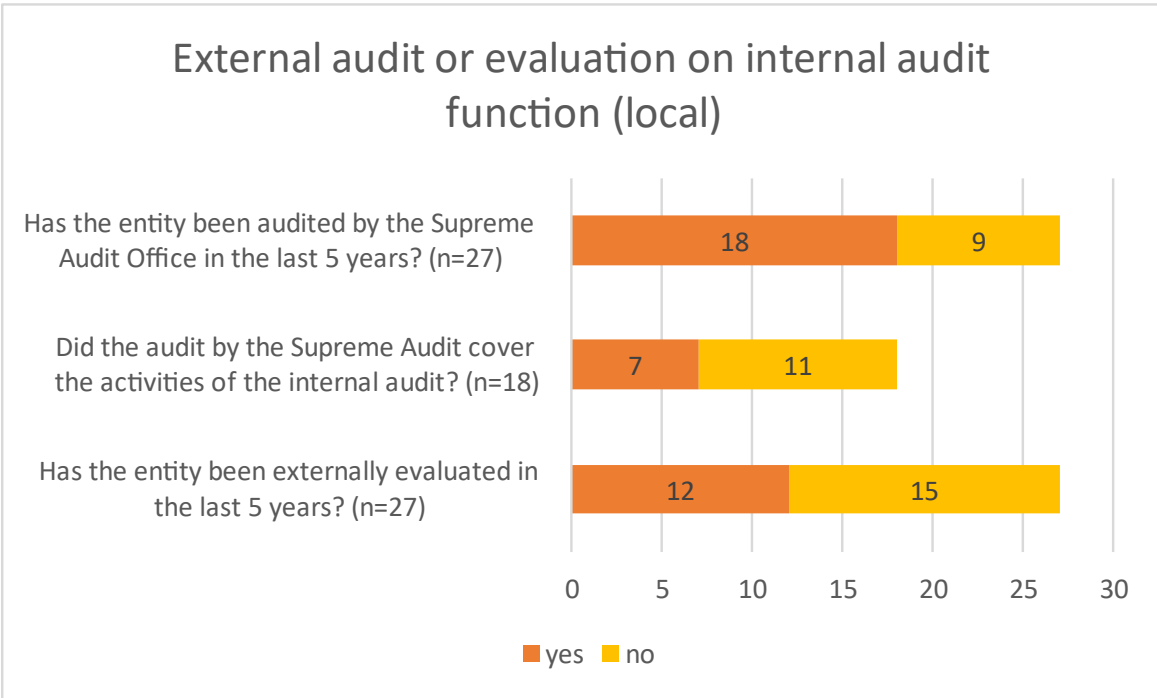


External audit and evaluation on the internal audit function

- Within the central government units, about 70% of the respondents responded that they had been audited by SAI in the past five years, but only about a quarter of them included internal audit activities in the audit scope. About 80% of the respondents indicated that they had received an external evaluation in the past five years.

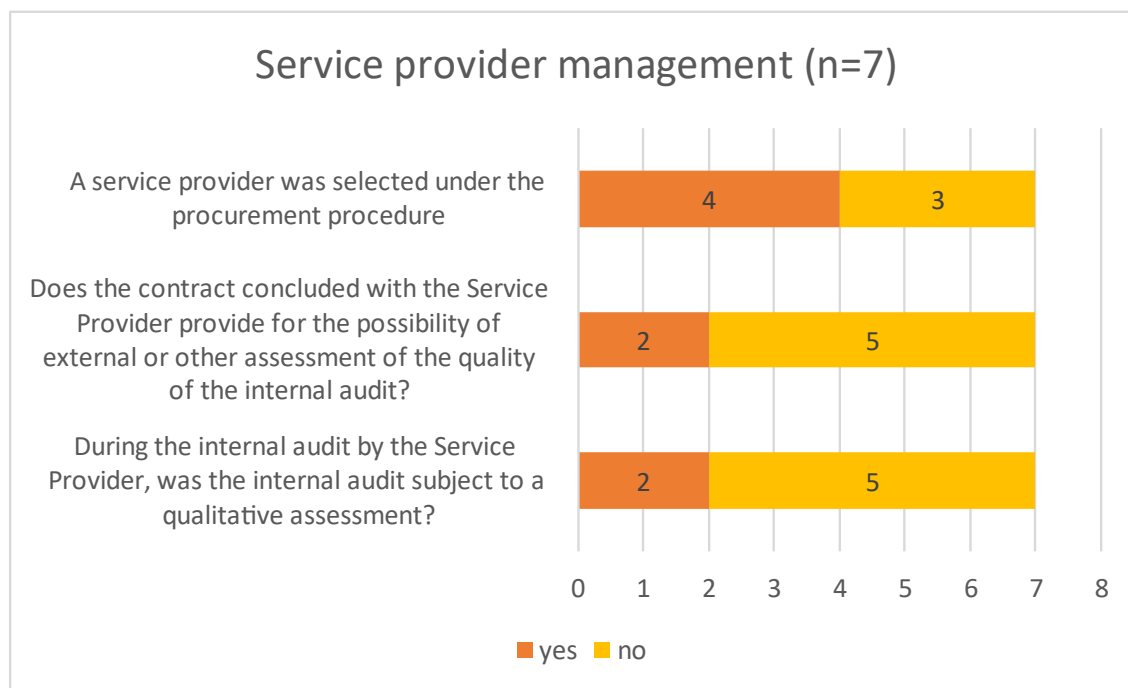


- In local governments, less than half of local governments received external evaluations.



Quality management of audits by service providers

- Among the respondents, two service provider auditors from the central government and five from the local government were included in the survey. About half of them answered that the service provider was selected without going through the procurement process. Also, only 2 out of 7 contracts contain clauses related to audit quality evaluation.



Annex B. Survey questionnaire

Central government IAUs

1. Public finance sector unit (please select from the list).
2. Unit's budget in 2022 (please enter the highest amount among income/income or expenses/costs).
3. Number of people employed in the unit (also applies to persons on duty).
4. Does the entity have subordinate or supervised entities?
5. Please provide the total number of people employed in subordinate or supervised entities.
6. Please provide the total budget of subordinate or supervised entities.
7. Position held.
8. Number of years worked in internal audit in the public finance sector.
9. Number of years worked in the current unit.
10. Number of years worked in the current unit in internal audit.
11. Has the entity developed an audit charter referred to in standard 1000 or a document with a different name or title, establishing internal audit in the entity?
12. In your opinion, are the IT tools provided by the unit sufficient to ensure that the scope of planning and carrying out tasks is not limited?
13. In your opinion, are the IT tools provided by the unit sufficient to ensure that the scope of planning and carrying out tasks is not limited? [Comment]
14. What IT tools do you use to conduct an internal audit? [MS Office]
15. What IT tools do you use to conduct an internal audit? [MS Office][Comment]
16. What IT tools do you use to conduct an internal audit? [Data analysis tools]
17. What IT tools do you use to conduct an internal audit? [Data analysis tools][Comment]
18. What IT tools do you use to conduct an internal audit? [Scripts in programming languages]
19. What IT tools do you use to conduct an internal audit? [Scripting in programming languages][Comment]
20. What IT tools do you use to conduct an internal audit? [Other]
21. What IT tools do you use to conduct an internal audit? [Other][Comment]
22. Are internal audit procedures developed?
23. Has the entity adopted a code of ethics for internal auditors?
24. Does internal audit regularly assess management control through assurance engagements?
25. Does internal audit regularly assess management control through assurance engagements? [Comment]

26. Has the internal audit made an overall assessment of the entity's management controls in the last three years?
27. Has the internal audit made an overall assessment of the entity's management controls in the last three years? [Comment]
28. Has the purpose of internal audit been defined in the audit charter?
29. Has a strategic (long-term) internal audit plan been developed?
30. Has a strategic (long-term) internal audit plan been developed? [Comment]
31. Is the objective defined for each audit task?
32. Is the objective defined for each audit task? [Comment]
33. Is the development of the audit plan based on a risk analysis related to the objectives of the entity (defined, for example, in the activity plan, other planning document)?
34. Is the development of the audit plan based on a risk analysis related to the objectives of the entity (defined, for example, in the activity plan, other planning document)? [Comment]
35. Please describe how the internal audit covers the key risks of the entity's functioning.
36. In your opinion, is the number of internal auditors in the entity (in the case of service providers - conducting the audit in the entity) sufficient, taking into account the scope of the audit and the expectations of the entity's management?
37. In your opinion, is the number of internal auditors in the entity (in the case of service providers - conducting the audit in the entity) sufficient, taking into account the scope of the audit and the expectations of the entity's management? [Comment]
38. In your opinion, are the human resources adequate and sufficient to implement the approved audit plan?
39. In your opinion, are the human resources adequate and sufficient to implement the approved audit plan? [Comment]
40. Do internal auditors employed by the entity or delegated by the service provider to conduct an audit within the entity have the knowledge, skills and other competencies necessary to perform their duties?
41. Do internal auditors employed by the entity or delegated by the service provider to conduct an audit within the entity have the knowledge, skills and other competencies necessary to perform their duties? [Comment]
42. Please provide the number of hours devoted to training - the average time spent on training one person from the internal audit unit (in the case of a service provider - auditors conducting the audit in the unit) in 2022.
43. Are internal auditors involved in non-audit tasks to the extent limiting the ability to perform audit tasks?
44. Are internal auditors involved in non-audit tasks to the extent limiting the ability to perform audit tasks? [Comment]
45. Does the head of the internal audit function (or the service provider) prepare the audit plan independently, before consulting it with the head of the entity?
46. Does the head of the internal audit function (or the service provider) prepare the audit plan independently, before consulting it with the head of the entity? [Comment]

47. In your opinion, have the statutory conditions necessary for the independent, objective and effective conduct of the internal audit been ensured, including the organisational separation of the internal audit unit
48. In your opinion, have the statutory conditions necessary for the independent, objective and effective conduct of the internal audit been ensured, including the organisational separation of the internal audit unit [Comment]
49. Please specify the level of satisfaction with independence in the context of: [planning]
50. Please specify the level of satisfaction with independence in the context of: [performance of tasks]
51. Please specify the level of satisfaction with independence in the context of: [reporting]
52. Please specify the level of satisfaction with independence in the context of: [access to information (Article 282(2) and (3) of the Act)]
53. Please specify the level of satisfaction with independence in the context of: [choice of techniques, audit methods]
54. If satisfaction is assessed at a level lower than "5", in any of the aspects - please describe the reason (or specify the scope of independence limitations). In the case of "5" grades only - please enter "not applicable".
55. Please assess the management's awareness of internal audit and management control. [internal audit]
56. Please assess the management's awareness of internal audit and management control. [management control]
57. Do you have concerns about the consequences (which may be drawn against the audit) related to the issuance of recommendations?
58. Do you have concerns about the consequences (which may be drawn against the audit) related to the issuance of recommendations? [Comment]
59. Is the unit a ministry or a unit in a department within the meaning of Art. 2 point 7 of the Public Finance Act?
60. In your opinion, does the audit committee support internal audit in the entity?
61. In your opinion, does the audit committee support internal audit in the entity? [Comment]
62. In your opinion, does the audit committee support the independence of the internal audit?
63. In your opinion, does the audit committee support the independence of the internal audit? [Comment]
64. Is an audit plan prepared for each year?
65. Is an audit plan prepared for each year? [Comment]
66. Is the audit plan prepared on the basis of a risk analysis?
67. Is the audit plan prepared on the basis of a risk analysis? [Comment]
68. Does the internal audit have procedures describing how to assess management control?
69. Does the internal audit have procedures describing how to assess management control? [Comment]
70. Please provide the number of financial audits carried out in the last 5 years (if the audit is carried out in the entity for less than 5 years - please provide data on the shorter period).
71. Please provide the number of compliance audits carried out in the last 5 years (if the audit is carried out in the entity for less than 5 years - please provide data on the shorter period).

72. Please provide the number of efficiency audits carried out in the last 5 years (if the audit is carried out in the unit for less than 5 years - please provide data on the shorter period).
73. Was management control, including risk management, assessed during each assurance engagement?
74. Was management control, including risk management, assessed during each assurance engagement? [Comment]
75. Number of recommendations issued in the last 5 years (if the audit is carried out in the entity for less than 5 years - please provide data on the shorter period).
76. Number of recommendations implemented in the last 5 years (if the audit is carried out in the entity for less than 5 years - please provide data on the shorter period).
77. Does the internal audit apply the principles of monitoring the implementation of recommendations and carrying out checks contained in the regulation (or a more extensive internal procedure in accordance with the regulation).
78. Does the internal audit apply the principles of monitoring the implementation of recommendations and carrying out checks contained in the regulation (or a more extensive internal procedure in accordance with the regulation) [Comment]
79. Please indicate the percentage of recommendations issued in 2022 that were refused.
80. Please provide data on the time spent in 2022 on (in %, data can be transferred from information on the implementation of internal audit tasks) [Planning and reporting] [Percentage of time]
81. Please provide data on the time spent in 2022 on (in %, data can be transferred from information on the implementation of internal audit tasks) [Planning, performing and documenting assurance tasks] [Percentage of time]
82. Please provide data on the time spent in 2022 on (in %, data can be transferred from information on the implementation of tasks in the field of internal audit) [Planning, execution and documentation of consulting activities] [Percentage of time]
83. Please provide data on the time spent in 2022 on (in %, data can be transferred from information on the implementation of internal audit tasks) [Monitoring the implementation of recommendations and carrying out checks] [Percentage of time]
84. Please provide data on the time spent in 2022 on (in %, data can be transferred from the information on the implementation of internal audit tasks) [Activities related to servicing the audit committee] [Percentage of time]
85. Please provide data on the time spent in 2022 on (in %, data can be transferred from information on the implementation of internal audit tasks) [Training and professional development] [Percentage of time]
86. Please provide data on the time spent in 2022 on (in %, data can be transferred from information on the implementation of internal audit tasks) [Other] [Percentage of time]
87. Please specify the number of requests for consulting activities addressed to the internal audit by the head of the unit in 2022 (both at the planning stage for 2022 and during the year).
88. Please specify the number of improvements to the functioning of the unit proposed as a result of advisory activities in 2022.
89. Were there repeated findings (the same finding in the same area over the years) during the audit engagements?

90. Were there repeated findings (the same finding in the same area over the years) during the audit engagements? [Comment]
91. How many instances of repeated findings as mentioned in the previous question were there?
92. In your opinion, what are the main challenges in the implementation and development of internal audit in public finance sector units?
93. In your opinion, what are the main challenges in the implementation and development of management control in public finance sector units?
94. In your opinion, what are the main challenges related to the implementation of the recommendations?
95. In your opinion, what are the main challenges in the implementation of verification activities?
96. Has the entity been audited by the Supreme Audit Office in the last 5 years?
97. Has the entity been audited by the Supreme Audit Office in the last 5 years? [Comment]
98. Did the control referred to in the previous question cover the activities of the internal audit?
99. Did the control referred to in the previous question cover the activities of the internal audit? [Comment]
100. Do you have experience in cooperation with the Supreme Audit Office (being an internal auditor)? If yes - please describe what this cooperation consisted of.
101. Please indicate the year in which the last external assessment in accordance with the 1312 standard was carried out.
102. Who performed the most recent external assessment in terms of Standard 1312?
103. Who performed the most recent external assessment in terms of Standard 1312? [Comment]
104. Has the service provider been selected under the procurement procedure providing for the announcement of the procurement, enabling the submission of applications/offers to all interested parties?
105. Does the contract concluded with the Service Provider provide for the possibility of external assessment (referred to in the 1312 standard) or other assessment of the quality of the internal audit?
106. Does the contract concluded with the Service Provider provide for the possibility of external assessment (referred to in the 1312 standard) or other assessment of the quality of the internal audit? [Comment]
107. During the internal audit by the Service Provider, was the internal audit subject to a qualitative assessment?
108. During the internal audit by the Service Provider, was the internal audit subject to a qualitative assessment? [Comment]
109. How is the assessment referred to in the previous question carried out?

Local government IAUs

1. Local government unit (please select from the list).
2. Unit's budget in 2022 (please enter the highest amount from income/revenue or expenses/expenses).
3. Number of people employed in the unit.
4. Number of organisational units of local government units (excluding the local government office).
5. Please provide the total number of people employed in organisational units.
6. Please enter the total budget of the organisational units.
7. Position held.
8. Number of years worked in internal audit in the public finance sector.
9. Number of years worked in the current unit.
10. Number of years worked in the current unit in internal audit.
11. Has the entity developed an audit charter referred to in standard 1000 or a document with a different name or title, establishing internal audit in the entity?
12. In your opinion, are the IT tools at the disposal of the internal audit sufficient to ensure that the scope of planning and carrying out tasks is not limited?
13. In your opinion, are the IT tools at the disposal of the internal audit sufficient to ensure that the scope of planning and carrying out tasks is not limited? [Comment]
14. What IT tools do you use to conduct an internal audit? [MS Office]
15. What IT tools do you use to conduct an internal audit? [MS Office] [Comment]
16. What IT tools do you use to conduct an internal audit? [Data analysis tools]
17. What IT tools do you use to conduct an internal audit? [Data analysis tools] [Comment]
18. What IT tools do you use to conduct an internal audit? [Scripts in programming languages]
19. What IT tools do you use to conduct an internal audit? [Scripting in programming languages] [Comment]
20. What IT tools do you use to conduct an internal audit? [Other]
21. What IT tools do you use to conduct an internal audit? [Other] [Comment]
22. Are internal audit procedures developed?
23. Has the entity adopted a code of ethics for internal auditors?
24. Does internal audit regularly assess management control through assurance engagements?
25. Does internal audit regularly assess management control through assurance engagements? [Comment]
26. Has the internal audit made an overall assessment of the entity's management controls in the last three years?
27. Has the internal audit made an overall assessment of the entity's management controls in the last three years? [Comment]
28. Has the purpose of internal audit been defined in the audit charter?

29. Has a strategic (long-term) internal audit plan been developed?
30. Has a strategic (long-term) internal audit plan been developed? [Comment]
31. Is the objective defined for each audit task?
32. Is the objective defined for each audit task? [Comment]
33. Is the development of the audit plan based on a risk analysis related to the objectives of the entity (defined, for example, in the activity plan, other planning document)?
34. Is the development of the audit plan based on a risk analysis related to the objectives of the entity (defined, for example, in the activity plan, other planning document)? [Comment]
35. Please describe how the internal audit covers the key risks of the entity's functioning.
36. In your opinion, is the number of internal auditors in the entity (in the case of service providers - conducting the audit in the entity) sufficient, taking into account the scope of the audit and the expectations of the entity's management?
37. In your opinion, is the number of internal auditors in the entity (in the case of service providers - conducting the audit in the entity) sufficient, taking into account the scope of the audit and the expectations of the entity's management? [Comment]
38. In your opinion, are the human resources adequate and sufficient to implement the approved audit plan?
39. In your opinion, are the human resources adequate and sufficient to implement the approved audit plan? [Comment]
40. Do internal auditors employed by the entity or delegated by the service provider to conduct an audit within the entity have the knowledge, skills and other competencies necessary to perform their duties?
41. Do internal auditors employed by the entity or delegated by the service provider to conduct an audit within the entity have the knowledge, skills and other competencies necessary to perform their duties? [Comment]
42. Please provide the number of hours devoted to training - the average time spent on training one person from the internal audit unit (in the case of a service provider - auditors conducting the audit in the unit) in 2022.
43. Are internal auditors involved in non-audit tasks to the extent limiting the ability to perform audit tasks?
44. Are internal auditors involved in non-audit tasks to the extent limiting the ability to perform audit tasks? [Comment]
45. Does the head of the internal audit function (or the service provider) prepare the audit plan independently, before consulting it with the head of the entity?
46. Does the head of the internal audit function (or the service provider) prepare the audit plan independently, before consulting it with the head of the entity? [Comment]
47. In your opinion, have the statutory conditions necessary for the independent, objective and effective conduct of the internal audit been ensured, including the organisational separation of the internal audit unit?
48. In your opinion, have the statutory conditions necessary for the independent, objective and effective conduct of the internal audit been ensured, including the organisational separation of the internal audit unit? [Comment]
49. Please specify the level of satisfaction with independence in the context of: [planning]

50. Please specify the level of satisfaction with independence in the context of: [performance of tasks]
51. Please specify the level of satisfaction with independence in the context of: [reporting]
52. Please specify the level of satisfaction with independence in the context of: [access to information (Article 282(2) and (3) of the Act)]
53. Please specify the level of satisfaction with independence in the context of: [choice of techniques, audit methods]
54. If satisfaction is assessed at a level lower than "5", in any of the aspects - please describe the reason (or specify the scope of independence limitations). In the case of "5" grades only - please enter "not applicable".
55. Please assess the management's awareness of internal audit and management control. [internal audit]
56. Please assess the management's awareness of internal audit and management control. [management control]
57. Do you have concerns about the consequences (which may be drawn against the audit) related to the issuance of recommendations?
58. Do you have concerns about the consequences (which may be drawn against the audit) related to the issuance of recommendations? [Comment]
59. Is an audit plan prepared for each year?
60. Is an audit plan prepared for each year? [Comment]
61. Is the audit plan prepared on the basis of a risk analysis?
62. Is the audit plan prepared on the basis of a risk analysis? [Comment]
63. Does the internal audit have procedures describing how to assess management control?
64. Does the internal audit have procedures describing how to assess management control? [Comment]
65. Please provide the number of financial audits carried out in the last 5 years (if the audit is carried out in the entity for less than 5 years - please provide data on the shorter period).
66. Please provide the number of compliance audits carried out in the last 5 years (if the audit is carried out in the entity for less than 5 years - please provide data on the shorter period).
67. Please provide the number of efficiency audits carried out in the last 5 years (if the audit is carried out in the unit for less than 5 years - please provide data on the shorter period).
68. Was management control, including risk management, assessed during each assurance engagement?
69. Was management control, including risk management, assessed during each assurance engagement? [Comment]
70. Number of recommendations issued in the last 5 years (if the audit is carried out in the entity for less than 5 years - please provide data on the shorter period).
71. Number of recommendations implemented in the last 5 years (if the audit is carried out in the entity for less than 5 years - please provide data on the shorter period).
72. Does the internal audit follow the principles of monitoring the implementation of recommendations and carrying out checks contained in the regulation (or a more extensive internal procedure in accordance with the regulation)?

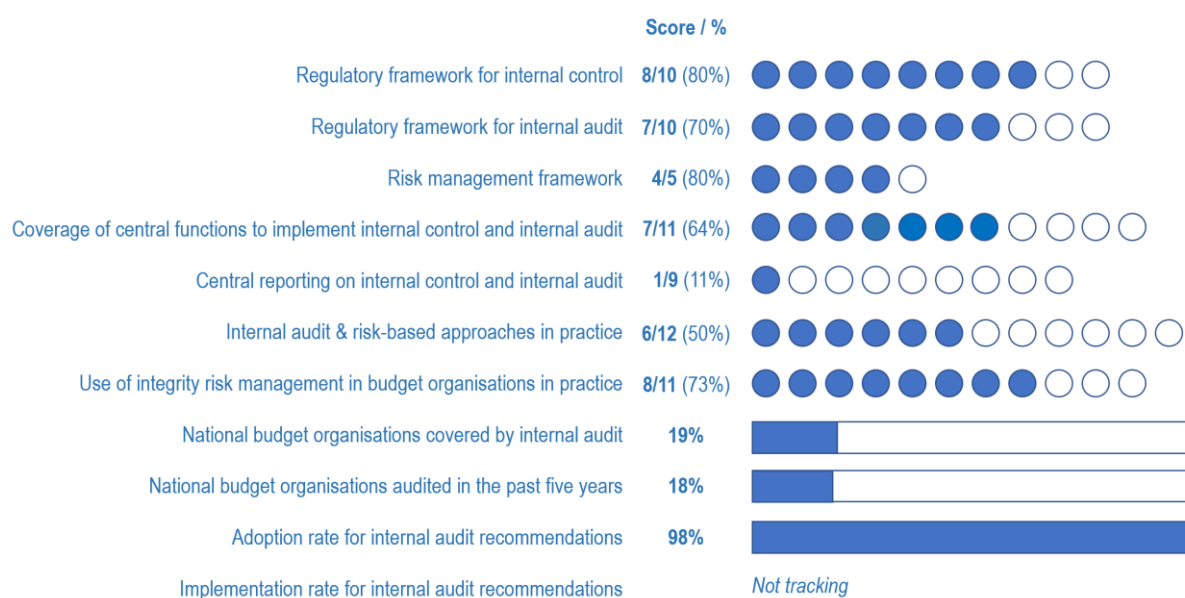
73. Does the internal audit follow the principles of monitoring the implementation of recommendations and carrying out checks contained in the regulation (or a more extensive internal procedure in accordance with the regulation)? [Comment]
74. Please indicate the percentage of recommendations issued in 2022 that were refused.
75. Please estimate the data on time spent in 2022 as (in %) [Planning and reporting][Percentage of time]
76. Please estimate the data on the time spent in 2022 as (in %) [Planning, performing and documenting tasks ensuring] [Percentage of time]
77. Please estimate the data on the time spent in 2022 as (in %) [Planning, executing and documenting consultancy activities] [Percentage of time]
78. Please estimate the data on time spent in 2022 as (in %) [Monitoring the implementation of recommendations and carrying out follow-up activities] [Percentage of time]
79. Please estimate the data on time spent in 2022 as (in %) [Training and professional development] [Percentage of time]
80. Please estimate the time spent in 2022 as (in %) [Other] [Percentage of time]
81. Please specify the number of requests for consulting activities addressed to the internal audit by the head of the unit in 2022 (both at the planning stage for 2022 and during the year).
82. Please specify the number of improvements to the functioning of the unit proposed as a result of advisory activities in 2022.
83. Were there repeated findings (the same finding in the same area over the years) during the audit engagements?
84. Were there repeated findings (the same finding in the same area over the years) during the audit engagements? [Comment]
85. How many instances of repeated findings as mentioned in the previous question were there?
86. In your opinion, what are the main challenges in the implementation and development of internal audit in public finance sector units?
87. In your opinion, what are the main challenges in the implementation and development of management control in public finance sector units?
88. In your opinion, what are the main challenges related to the implementation of the recommendations?
89. In your opinion, what are the main challenges in the implementation of verification activities?
90. Has the entity been audited by the Supreme Audit Office in the last 5 years?
91. Has the entity been audited by the Supreme Audit Office in the last 5 years? [Comment]
92. Did the control referred to in the previous question cover the activities of the internal audit?
93. Did the control referred to in the previous question cover the activities of the internal audit? [Comment]
94. Do you have experience in cooperation with the Supreme Audit Office (being an internal auditor)? If yes - please describe what this cooperation consisted of.
95. Please indicate the year in which the last external assessment in accordance with the 1312 standard was carried out.
96. Who performed the most recent external assessment in terms of Standard 1312?
97. Who performed the most recent external assessment in terms of Standard 1312? [Comment]

98. Has the service provider been selected under the procurement procedure providing for the announcement of the procurement, enabling the submission of applications/offers to all interested parties?
99. Does the contract concluded with the Service Provider provide for the possibility of external assessment (referred to in the 1312 standard) or other assessment of the quality of the internal audit?
100. Does the contract concluded with the Service Provider provide for the possibility of external assessment (referred to in the 1312 standard) or other assessment of the quality of the internal audit?
[Comment]
101. During the internal audit by the Service Provider, was the internal audit subject to a qualitative assessment?
102. During the internal audit by the Service Provider, was the internal audit subject to a qualitative assessment? [Comment]
103. How is the assessment, referred to in the previous question, carried out?

Annex C. OECD Public Integrity Indicators - analysis results of Principle 10 of Poland

Source: OECD Public Integrity Indicators (non-published data)

Effectiveness of internal control and risk management mechanisms for safeguarding public integrity (2023)



Regulatory framework for internal control

- ☒ The definition of internal control and internal audit in policy or regulatory documents are defined according to international standards
- ☒ Regulations on internal control define managerial responsibility regarding the implementation of internal control and internal audit
- ☒ Regulations specify the objectives of internal control
- ☒ Regulations on internal control establish annual internal control and internal audit reporting activities
- ☒ Guidelines on fraud and corruption prevention are available and part of the internal control framework
- ☒ Regulations for implementing internal control are applicable to all central government institutions, including social security funds
- ☐ Standards of conduct and ethical behaviour are published and applicable for ministers
- ☒ Standards of conduct and ethical behaviour are published and applicable for members of parliament
- ☐ Standards of conduct and ethical behaviour are published and applicable for other political appointees
- ☒ Standards of conduct and ethical behaviour are published and applicable for civil servants

Regulatory framework for internal audit

- ☒ The regulatory framework specifies the operational arrangements for internal audit
- ☐ The regulatory framework specifies the scope of work and size of internal audit units (minimum two persons per unit)
- ☒ The regulatory framework allows internal audit arrangements to differ depending on the type and size of the institution
- ☐ Standards directly aimed at the conduct and ethical behaviour of internal auditors are published
- ☒ The regulatory framework stipulates that the head of the internal audit function has direct and unrestricted access to political staff and senior managers of all public sector bodies
- ☒ The regulatory framework stipulates the independence of the internal audit function in determining the scope of internal auditing, performing work, and communicating results
- ☒ The regulatory framework prohibits, or establishes cooling-off periods, for internal audit staff to audit operations for which they have previously been responsible to avoid any perceived conflict of interest
- ☐ The regulatory framework requires the internal audit units (IAU) to develop an internal audit activity manual based on a standard methodology approved by the Central Harmonisation Unit (CHU) or a central internal audit function
- ☒ The regulatory framework requires external quality assessments of internal control activity to be performed no less than once in 5 years by an independent party
- ☒ The regulatory framework stipulates that the head of internal audit units must provide annual activity reports to the Central Harmonisation Unit (CHU) or central internal audit function

Risk management framework

- ☒ A risk management framework exists
- ☒ Public integrity risks are explicitly addressed in the risk management framework
- ☒ The risk management framework explicitly delegates responsibility for conducting risk assessments to management, not internal auditors
- ☐ Entity-wide risk registers or fraud risk profiles must be prepared in each public body
- ☒ Processes and procedures are established for addressing the risks and actions that management must take, including reporting procedures or addressing weaknesses in the internal control system

Coverage of central functions to implement internal control and internal audit

- ☒ One central government body (CHU) is responsible for developing the internal control and internal audit systems
- ☒ A central function develops the internal control system
- ☒ A central function develops the internal audit system
- ☒ The CHU promotes internal control and internal audit methodologies based on international standards
- ☒ A central function promotes internal control methodologies based on international standards
- ☒ A central function promotes internal audit methodologies based on international standards
- ☐ The CHU has conducted a government-wide review on the functioning of the internal control and internal audit systems, annually during the last 3 years
- ☐ The central function has conducted a government-wide review on the functioning of the internal control system, annually during the last 3 years
- ☐ The central function has conducted a government-wide review on the functioning of the internal audit system, annually during the last 3 years
- ☐ The CHU or the central internal audit function coordinates the training and certification system to ensure the inclusion of new internal audit staff and the continuous professional education
- ☒ Guidelines on assessing integrity risks have been issued within the last 5 years by the CHU or the central function for internal control to all public sector institutions implementing internal control

Central reporting on internal control and internal audit

-  All central government institutions that are required to implement internal control reported on actions taken to the central function responsible for internal control policy in the latest full calendar year
-  The annual reports on internal control or internal audit from the past 3 years present the rates of implementation of internal audit recommendations
-  The annual reports on internal control or internal audit for the past 3 years are publicly available
-  The annual reports on internal control or internal audit were shared with the supreme audit institutions for the past three years, if not publicly available
-  The latest annual reports on internal control from the past 3 years included summary statistics of auditing, and a summary of self-assessments of internal control and risk management activities
-  The latest annual report on internal control or internal audit contained a dedicated section or data on integrity, anti-corruption or fraud risks and controls
-  More than 50% of public bodies covered by internal control provided a self-assessment report regarding the maturity of their internal control systems during the latest full calendar year
-  An intergovernmental organisation has conducted a review of the internal control or internal audit system within the past 5 years
-  The supreme audit institution has conducted a review of the internal control or internal audit system within the past 5 years

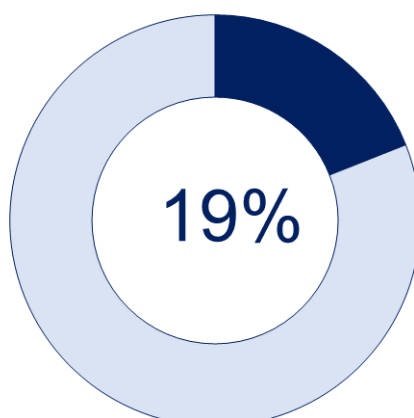
Internal audit and risk-based approaches in practice

-  Internal audit units are staffed according to legal requirements
-  All internal audit units are staffed by at least 2 persons
-  A certification scheme for internal audit professionals is operational at the national level
- N/A At least 85% of public officials performing internal audit functions have obtained a national or international certificate for internal audit
-  Audit charters are adopted by heads of institutions for all sample organisations
-  Audit procedure manuals are adopted by heads of institutions for all sample organisations
-  Reports from the internal audit unit are submitted directly to the head of the institution for all sample organisations
-  Annual activity reports from all the internal audit units are submitted to the CHU or the central internal audit function
-  Audit plans in all sample organisations use data from an entity-wide risk register and the internal audit function's risk assessment to select areas to audit within the defined audit universe
-  Audit plans in at least half of sample organisations include integrity-specific objectives aimed at reducing fraud and other public integrity risks
-  At least 90% of internal audit reports include the results of internal control assessment in the audited area
-  At least half of sample organisations conducted external quality assurance of the internal audit function within the last 5 years

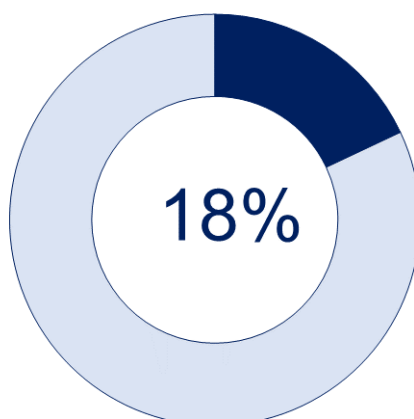
Use of integrity risk management in budget organisations in practice

- ☒ All sample organisations have conducted at least one risk assessment exercise in the past 3 years
- ☒ Roles and responsibilities for risk management and for managing integrity risks have been assigned in all budget organisations, in line with the regulatory framework
- ☒ All sample organisations have established a system for documenting the results of risk assessments, including as a minimum creating risk profiles or risk registers
- ☒ The internal audit function has reviewed the adequacy and effectiveness of the risk management policies and processes for all public bodies within the past 3 years.
- ☐ The body with direct responsibility for managing integrity risks is not part of the internal audit function and reports directly to the head of the institution in all sample organisations
- ☐ The body with direct responsibility for managing integrity risks is not part of the compliance department, or legal counsel in all sample organisations
- ☒ Guidance documents on managing integrity risks, including red flags for corruption and fraud risks that are relevant for the entity's operations, exist for at least half of sample organisations
- ☒ Risk assessments for at least half of sample organisations identify integrity risks
- ☐ Integrity risk assessments for at least half of sample organisations identify both inherent and residual risks
- ☒ Integrity risk assessments for at least half of sample organisations include an examination of existing controls and whether changes are needed in the control environment (i.e. risk treatment)
- ☒ Integrity risk assessments for at least half of sample organisations apply either a qualitative or quantitative scoring methodology (e.g. risk likelihood, impact and velocity) that enables prioritisation of high versus low risks

Share of national budget covered by internal audit



Share of national budget audited in the past five years.



Adoption rate for internal audit recommendations

