Internal Control and Internal Audit in the Public Sector of the Russian Federation

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Background

Three levels of government in the Russian Federation (RF): federal government (central), government of the subjects of the Russian Federation (regional), and local self-government

Executive bodies at the federal level (federal ministries, agencies and services) and some other organizations are chief administrators of the federal budget funds of the Russian Federation. As of January 1, 2011, their total number was 109

All chief administrators of the federal budget funds are within the audit competence of the Accounts Chamber of the Russian Federation
Governance

Chief administrator of budgetary funds effects financial control over the subordinate administrators (receivers) of budgetary funds in the part of legal, targeted, efficient use of budgetary funds (the articles 158 and 269 of the Budget Code of the Russian Federation)

The bodies of executive power (bodies of local administration) are entitled to establish units of internal audit (internal control), which carry out elaboration and control over the compliance with internal standards and procedures, related to preparation and execution of the budget, preparation of budgetary reporting and keeping of budgetary accounting, as well as organization of execution of measures, aimed at increase of effectiveness of usage of budgetary funds. (the article 2701 of the Budget Code of the Russian Federation)

Governance (continuation)

The internal auditors, as usual, report to the Heads or Deputy Heads of ministries, departments, organizations

In a number of ministries and departments (Federal Treasury, Ministry of Public health and social development of RF) the results of internal audit are presented to special hearings of audit committees (boards). In most cases the audit committees have not been established.

Funding for the units of internal audit (control) is provided, as usual, within the annual budget of ministries, departments, organizations (approved by the budgetary law)
Structure (continuation)

Develop and control the policy of internal audit (control):
- the Ministry of Finance of Russia (methodology, requirements related to activities)
- the Accounts Chamber of the Russian Federation (annual audits within the framework of execution of the federal budget law)

The organizational position of the heads of units of internal audit (control):
- senior management level: director (deputy head) of department,
- or middle management level: head (deputy head) of division

The scope of internal audit:
- financial activities of the organization (in case of “advanced” in this sphere ministries, departments)
- financial activities of core departments
Standards and review system

Requirements to activities for conduction of state financial control (the decree of the Ministry of Finance of Russia of December 25, 2008 № 146(n))

Approved standards of internal control have 66 chief administrators of the federal budget funds (60,6% from the total amount)

Partial correspondence with International standards

Some control of quality of audit activities (requirements to the quality of audit activities are stated in the decree of the Ministry of Finance of Russia of December 25, 2008 № 146(n))

Annual reporting on the results of control activities of internal audit (control) units was introduced

Human resources

Number of units of internal control (audit) in some chief administrators of the federal budget funds

<table>
<thead>
<tr>
<th>Chief administrator of the federal budget funds</th>
<th>Number of staff of internal audit units</th>
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<tr>
<td></td>
<td>As prescribed</td>
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<tr>
<td>Federal Treasury</td>
<td>77</td>
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<tr>
<td>Federal Customs Service</td>
<td>33</td>
</tr>
<tr>
<td>Federal Service for financial and budget supervision</td>
<td>17</td>
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<tr>
<td>Emergency Control Ministry of RF</td>
<td>16</td>
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<tr>
<td>Ministry of Justice of RF</td>
<td>5</td>
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<tr>
<td>Ministry of Economic Development of RF</td>
<td>9</td>
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<tr>
<td>Ministry of Culture of RF</td>
<td>7</td>
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<tr>
<td>Ministry of Public Health and Social Development of RF</td>
<td>5</td>
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<tr>
<td>Ministry of Sports and Tourism of RF</td>
<td>4</td>
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<tr>
<td>Ministry of Energy of RF</td>
<td>5</td>
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<td>Ministry of Agriculture of RF</td>
<td>7</td>
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<tr>
<td>Ministry of Natural Resources of RF</td>
<td>6</td>
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<tr>
<td>Ministry of Transport of RF</td>
<td>5</td>
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<tr>
<td>Federal Tax Service</td>
<td>5</td>
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</tbody>
</table>
Human resources (continuation)

The level of qualification of internal auditors: there are no clear requirements relating to certification of auditors

The internal audit units as usual have adequate tools and technology to support audit activities: computers are provided, e-mail and professional software are available, Integrated Local Area Network and web access is provided.

Cooperation of the Accounts Chamber with the units of internal audit (control)

- **Conduction of audit** of existence, condition and efficiency of internal financial control, as an integral part of audits of the federal budget execution and annual budgetary reporting of chief administrators of the federal budget funds. From 2011 the evaluation of internal control activities is conducted on the basis of elaborated matrix.

- **Assessment of efficiency** of functioning of internal financial control in audited organizations during conduction of theme audits (in separate cases, not systematically).

- **Conduction of seminars** (including international ones) on the issues of internal financial control, with participation of chief administrators of the federal budget funds.
The issues of internal control at regional and local levels

- The right (but not commitment) to establish units of internal audit (control) by the bodies of executive power of the regional level and bodies of local administration (article 270 of the Budget Code of the Russian Federation)

- The right of the Accounts Chamber to conduct audits of budgets of subjects of the Russian Federation and local budgets – receivers of inter-budgetary transfers from the federal budget (article 157 of the Budget Code of the Russian Federation)

- Existing practice in place: conduction of such audits by control and audit bodies of subjects of the Russian Federation and municipal bodies

- The right of the Accounts Chamber to organize cooperation with control and audit bodies of subjects of the Russian Federation and municipal bodies (Federal Law «On the general principles of organization and activities of control and audit bodies of subjects of the Russian Federation and municipal bodies», came into force on October 1, 2011)

Proposals aimed at improvement of the system of internal financial control and its cooperation with SAI

- Introduction of amendments in the regulatory acts in the part of clear division of functions and the scheme of cooperation of state external and internal audit

- Introduction into practice methodological recommendations of the Accounts Chamber on evaluation of state and efficiency of the internal financial control

- Elaboration by the body of executive power of methodological recommendations on execution of internal financial control by chief administrators of budgetary funds
THANK YOU FOR ATTENTION!