



NAJWYŻSZA IZBA KONTROLI

## Good Practices in Implementing Internal Control

Meeting of the Subcommittee on Internal Control Standards

Warszawa, 24 April 2012

### Background in the light of INTOSAI Gov 9100

#### Definition of internal control

Internal control is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved:

- executing orderly, ethical, economical, efficient and effective operations;
- fulfilling accountability obligations;
- complying with applicable laws and regulations;
- safeguarding resources against loss, misuse and damage.

#### The essential traits

- An integral process
- Effected by management and other personnel
- In pursuit of the entity's mission
- To address risks
- Provides reasonable assurance
- Achievement of objectives

## An integral process

- Internal control is not one event or circumstance, but a series of actions that permeate an entity's activities
- Internal control should be built in rather than built on. By building in internal control, it becomes part of and integrated with the basic management processes of planning, executing and monitoring.
- Built in internal control also has important implications for cost containment. Adding new control procedures that are separate from existing procedures adds costs.

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## Effected by management and other personnel

- People are what make internal control work.
- People must know their roles and responsibilities, and limits of authority.

### Concerns

- Internal control cannot change an inherently poor manager into a good one.
- The human factor can result in flaws in design, errors of judgment or interpretation, misunderstanding, carelessness, fatigue, distraction, collusion, abuse or override

### Managers

are directly responsible for all activities of an organization, including designing, implementing, supervising proper functioning of, maintaining and documenting the internal control system. Their responsibilities vary depending on their function in the organization and the organization's characteristics.

### Internal auditors

examine and contribute to the ongoing effectiveness of the internal control system through their evaluations and recommendations and therefore play a significant role in effective internal control. However they do not have management's primary responsibility for designing, implementing, maintaining and documenting internal control.

### Staff members

contribute to internal control as well. Internal control is an explicit or implicit part of everyone's duties. All staff members play a role in effecting control and should be responsible for reporting problems of operations, non-compliance with the code of conduct, or violations of policy.

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## In pursuit of the entity's mission

- Entities exist for a purpose – the public sector is generally concerned with the delivery of a service and a beneficial outcome in the public interest.

- The importance of ethical behavior.

- General expectations are that public servants should serve the public interest with fairness and manage public resources properly.

- Citizens should receive impartial treatment on the basis of legality and justice.

- Public ethics are a prerequisite to, and underpin, public trust and are a keystone of good governance.

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### To address risks

- The achievement will face all kinds of risks. The task of management is to identify and respond to these risks in order to maximize the likelihood of achieving the entity's mission.

### Provides reasonable assurance

- The satisfactory level of confidence under given considerations of costs, benefits, and risks.

- The cost of internal control should not exceed the benefit derived.

- Limitations: human judgment in decision making can be faulty; breakdowns can occur because of simple errors or mistakes; controls can be circumvented by collusion of two or more people; or management can override the internal control system.

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## Achievement of objectives

- executing orderly, ethical, economical, efficient and effective operations
- complying with laws and regulations
- fulfilling accountability obligations
- safeguarding resources against loss, misuse and damage due to waste, abuse, mismanagement, errors, fraud and irregularities

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## The template according to INTOSAI Gov 9100

Short description and explanation objective within entity:

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
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## The Example

Executing orderly, ethical, economical, efficient and effective operations

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## Relation to the activity of the NIK

- Preparations for the organisation of EURO 2012 make one of the most important tasks realised by the government and self-government administration recently. In this task, significant financial amounts were involved from the state budget, EU funds and resources of local self-governments.
- The NIK conducted a series of audits because the preparations for EURO 2012 are a huge, important and multi-sided undertaking. Additionally, the public opinion, politicians and the media are very much interested in this issue, which is often discussed in the press, radio and on TV. Citizens also sent letters directly to the NIK, in which they expressed their interest in the progress of the preparations.
- Since 2008, the NIK has been monitoring the progress of the preparations for EURO 2012 through annual audits, assessments and audit recommendations. The Prime Minister addressed the President of the NIK with a proposal to conduct an audit in this area.

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## General information on the investment

### PGE Arena Stadium in Gdańsk

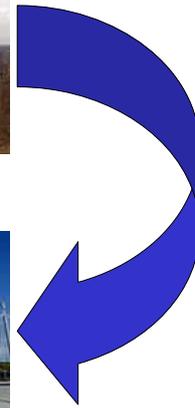
**Capacity:** 43,615 spectators

**Total cost of the investment:** PLN 864 million (including 650 million – costs of the stadium; other costs were related to the access roads infrastructure)

**Construction time:** June 2009 – July 2011

**Design by:** Rhode-Kellermann-Wawrowsky, the authors of the Veltins-Arena Stadium in Gelsenkirchen and the AWD-Arena Stadium in Hannover

**Contractor:** Hydrobudowa Polska – Alpine Bau



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## Control Environment

- A far-sighted mission of the local authorities: "We want to be the host of EURO 2012" – inhabitants' support for the participation in the investment.
- Organisational structures were established at the level of local self-government: the Proxy of the Mayor of the city of Gdańsk for the construction of the stadium, and a separate unit for the construction of the stadium at the City Office.
- An external company was established on the basis of these structures, responsible for the direct realisation of the task.
- The President of the company was selected via an open competition, and the Chief Contract Engineer was appointed (Project Manager).
- Responsibilities, rights and duties were formally defined.
- The seat of the company was located on the construction site.
- Agreements with contractors were subject to transparent procedures set out in the Public Procurement Law.
- High ethical culture was assured by providing an opportunity to participate in this innovative task. A big percentage of employees were young people. Employees were selected by the Company in cooperation with the Faculty of Land and Environmental Engineering of the Gdańsk Technical University. Some of the staff were persons with experience in foreign companies (e.g. some built the infrastructure for Olympic Games in London 2012).

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## Risk Assessment

- The main task was the construction of the stadium, so risk assessment was made on the basis of a SMART analysis.
- External experts were employed to identify and analyse risks.
- Risk management was based on the *Project Management Book* method, and for construction works – the FIDIC methodology (*International Federation of Consulting Engineers*).
- Financial projection of the task was assured by an opportunity to use various sources of financing:
  - own resources of the city
  - subsidies from the Ministry of Sports and Tourism
  - a bank loan.

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## Control Activities

- Because of the need to meet the deadline, the key element was to ensure the continuity of the investment through the permanent managerial and supervising staff.
- Because it was a complex investment, detailed internal procedures had to be established (including templates of documents) in cooperation with a technical advisor, responsible for organisational matters.
- Because it was an innovative project, it was necessary to constantly and closely cooperate with the designers and an audit firm.
- Because of the investment type, it was necessary to provide security and limited access to the construction site.
- Accounts books were kept by an external specialised entity, supervised by the Financial Director of the Company.

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## Information and Communication

- Technical Councils of the Investment were organised every week.
- Technical Councils with various groups of stakeholders were held every month.
- The Company management regularly reported to the City authorities.
- Supervision by the Company Supervisory Board.
- Reports were sent to the Social Committee for Supporting the Construction of the Stadium, composed of 11 associations that gathered entrepreneurs from the region.
- A comprehensive website with films presenting current progress of the investment, recorded by active cameras – a form of social control.
- "Open days" for inhabitants organised after the stadium was made available to the public by the competent authorities (Fire Brigade, Police)
- Constant and active cooperation with local and national media.

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## Monitoring

- Operational meetings – once a week.
- External audits:
  - By the local authorities,
  - By the company responsible for preparations for EURO 2012 in Poland,
  - By the Polish Football Association and UEFA.
- External assessment by the Ministry of Transport and Tourism.
- Annual audits by the NIK.

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Thank you for your attention.

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