

# Internal audit of public institutions: the Moroccan case.

*NAIMI JAMAL EDDINE*<sup>1</sup>, (DOCTOR OF MANAGEMENT SCIENCES)

<sup>1</sup>Université Moulay Ismail Faculté des Sciences Juridiques Economiques et Sociales de Meknès, Morocco.

[Mail j.edin.n@gmail.com](mailto:Mail.j.edin.n@gmail.com)

*TOUBTOU ABDERAHMAN*<sup>1</sup>, (ASSISTANT PROFESSOR OF MANAGEMENT SCIENCE)

<sup>1</sup>Université Mohamed Premier Faculté des Sciences Juridiques Economiques et Sociales d'Oujda, Morocco.

[Mail T.abderahman@gmail.com](mailto:Mail.T.abderahman@gmail.com)

**\*Correspondence address :**

Meknes Faculty of Legal, Economic and Social Sciences

Address: Quartier Toulal Route de Rabat Meknès 50000

Moulay Ismail University

Morocco (Meknes)

50000

Telephone: +212660116146

## Summary in French

Dans un contexte marqué de plus en plus de responsabilisation, il était temps de procéder à des changements transversaux au niveau de la gestion communale, objet de l'apparition de la loi organique n°113.14 relative aux communes, qui a doté ces dernières d'un ensemble de prérogatives et missions, dans le but majeur est le développement des régions du Royaume. Cependant, la réalisation d'un développement régional intégré et durable nécessite l'application d'un ensemble de mesures, et en premier lieu, l'amélioration et la modernisation de la gestion communale et son mode managérial. C'est dans cette optique que le PGL a introduit les bases d'une bonne gouvernance locale, notamment sensibiliser les communes de se doter d'une structure d'audit interne qui leur permettra de détecter les risques auxquels elle est confrontée, de les évaluer, et in fine l'aider à atteindre les objectifs qu'elle s'est fixés.

**Mots clés : Cellule- audit interne- commune- mission.**

**Type de l'article : Article théorique.**

## Abstract

*In a context marked by increasing accountability, it was time to make cross-cutting changes at the level of municipal management, the subject of the appearance of Organic Law No. 113.14 relating to municipalities, which provided them with a set of prerogatives and missions, with the major aim of developing the regions of the Kingdom. However, the achievement of an integrated and sustainable regional development requires the application of a set of measures, and in the first place, the improvement and modernization of municipal management and its managerial mode. It is with this in mind that the PGL has introduced the basics of good local governance, in particular raising the awareness of municipalities to equip themselves with an internal audit structure that will enable them to detect the risks it faces, to assess them, and ultimately help it achieve the objectives it has set itself.*

**Keywords:** Cell - Internal Audit - commune-mission.

**Paper type:** Theoretical Research.

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## 1. Introduction

Internal audit is a favourite subject of study in management sciences and good governance. It is a fascinating and controversial subject, but one that has been little studied, until now, in relation to local authorities.

Internal audit is a long-established function practised in most public and private organisations. The aim is for line managers to optimise the management of their organisations in an environment that is difficult to control.

In France, the internal audit function did not really come into its own until the 1980s, when a distinction was made between internal audit and internal and financial control. In Morocco, on the other hand, the internal audit function was first introduced in 1980 in multinational firms and large private companies, before being introduced in the public sector for reasons linked to the opening up of the Moroccan economy.

Internationally, the internal audit function has been introduced to compensate for the mediocre quality of the control environment following the multiplicity of inspection missions. In order to verify the quality of internal control, an audit function has been set up to assess the quality of the internal control system by drafting reports on the subject, together with recommendations to be taken into consideration. These reports are forwarded to senior managers concerned with good governance, often by an independent and autonomous internal audit committee. The development of internal control and audit contributes to good governance.

In Morocco, following the promulgation of the 2011 Constitution and Organic Law 113-14 on local authorities, which emphasised evaluation, internal control and audit, and encouraged local authorities to approve the audit charter, the internal audit function began to be promoted within local authorities as part of the democratic development of the Kingdom following the 2011 Constitution. This is the national context in which our dissertation is being written:

## **How does internal audit contribute to optimising the achievement of the objectives of Moroccan local authorities?**

This unifying question gives rise to all the following subsidiary questions:

- What is the historical development of the internal audit function?
- What is the reference framework for the internal audit function?
- What are the stages in an internal audit assignment?
- What is the benefit of setting up an internal audit unit in a Moroccan municipality?
- What is the difference between setting up internal audit units in Moroccan and French local authorities?
- What are the opportunities and challenges of setting up internal audit units?

The role that setting up internal audit units can play in helping Moroccan communes to achieve their objectives is a vast subject. We will deal with only part of the issue here, focusing mainly on the communes.

To develop this problem, we have opted for a classic plan, which will be subdivided into two essential parts. The first part will be devoted to the theoretical aspect, while the second part will deal with the practical case of Moroccan communes.

## **2. The reference framework at nationwide**

The 2011 Constitution was an opportunity for Morocco to reiterate its commitment to reform. It enshrines the principles of good governance of public services in terms of transparency, accountability and responsibility of public service employees in the performance of their duties. Putting these founding principles of good governance into practice requires the introduction of management tools and instruments capable of guaranteeing that the objectives of free administration defined by the Constitution are achieved.

As part of the Local Governance Programme (PGL), the Directorate General for Local Authorities (DGCL), in partnership with the United States Agency for International Development (USAID), has launched a major project to promote internal auditing within local authorities in general and municipalities in particular.

This project has been running since 2011 in three pilot municipalities (Salé, Safi and El Jadida) and has led to the establishment of internal audit structures that are now operational. At the same time, the PGL has drawn up a reference framework for the practice of internal auditing within the communes, embodied in an internal audit charter, an audit procedures manual and around ten practical guides for auditing the communes' main business processes.

### **2.1. The new Moroccan constitution 2011**

On 17 June 2011, the draft Constitution was approved in a referendum (with a turnout of almost 75%, including 97.5% in favour). On 29 July 2011, the new Constitution was promulgated. According to Article 1, § 3,

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<sup>1</sup> The Moroccan Constitution 2011.

"The Kingdom's territorial organisation is decentralised. It is based on advanced regionalisation". Title IX ('Of the Regions and other territorial authorities') contains a number of important new provisions. For example, it is stipulated that the members of regional councils will henceforth be elected by direct universal suffrage.

Similarly, it is planned that the chairmen of the regional councils and the prefectural and provincial councils will henceforth be responsible for carrying out the deliberations of the said councils (in place of the walis, who represent central government).

The new Moroccan Constitution represented a historic and decisive turning point in the process of completing the construction of the rule of law and democratic institutions. Article 145 of the Constitution came at a time when Morocco had set itself the challenge of establishing a homogenous society based on the principles of participation, pluralism and good governance.

The issue of territorial decentralisation has figured prominently in our new Constitution, which has 12 articles in Title IX entitled "Regions and other territorial authorities".

This constitutional consecration reflects the High Royal Will, which aspires to provide Morocco with advanced regionalisation, of a democratic nature and dedicated to integrated and sustainable economic, social, cultural and environmental development. This project is the prelude to a far-reaching reform of the structures of the State, through the determined and gradual implementation of the processes of consistent and effective decentralisation and deconcentration, far-reaching democratisation, accelerated development, social, political and administrative modernisation of the country and good governance.

- **Article 145**<sup>2</sup>

"In local authorities, regional walis and governors of provinces and prefectures represent central government. On behalf of the government, they ensure the application of laws, implement regulations and government decisions and exercise administrative control.

The walis and governors assist the presidents of local authorities, and in particular the presidents of regional councils, in implementing development plans and programmes.

Under the authority of the ministers concerned, they coordinate the activities of the decentralised departments of the central administration and ensure that they operate smoothly.

Article 146 of the 2011 Constitution stipulates that an organic law shall set out, among other things, the competences proper, the competences shared with the State and those transferred to the regions and other territorial authorities, as well as financial resources, etc. However, as of September 2013, the organic law provided for in Article 146 - like most of the 19 organic laws that should be drafted following the new 2011 Constitution - had still not been drawn up. As a result, there is a degree of uncertainty as to the exact powers, operation, funding, etc. of the various local authorities.

- **Article 146**<sup>3</sup>

An organic law shall in particular lay down :

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<sup>2</sup> The Moroccan constitution, article 145.

<sup>3</sup> The Moroccan constitution, article 146.

- The conditions for the democratic management of their affairs by the regions and other territorial authorities, the number of councillors, the rules relating to eligibility, incompatibilities and the prohibition on holding more than one office, as well as the electoral arrangements and the provisions designed to ensure greater participation by the citizens of the regions and other territorial authorities.  
women on these boards.
- The conditions for implementing the deliberations and decisions of the Regional Councils and other local authorities, in accordance with the provisions of article 138.
- The conditions for exercising the right of petition provided for in Article 139.
- The specific competences, the competences shared with the State and those that may be transferred to the regions and other territorial authorities, as provided for in article 140,
- The financial regime of the regions and other territorial authorities.

The origin of the financial resources of the Regions and other territorial authorities in accordance with Article 141.

- The resources and operating procedures of the social upgrading and inter-regional solidarity funds provided for in article 142.
- The conditions and procedures for setting up the groupings referred to in article 144.
- Provisions encouraging the development of inter-municipality, as well as mechanisms designed to ensure the adaptation of territorial organisation to this end.
- The rules of governance relating to the proper functioning of free administration, the control of the management of funds and programmes, the evaluation of actions and the rendering of accounts.

## **2.2.Organic law 113/14 on communes<sup>4</sup>**

In practice, municipal action is subject to a number of controls, each of which has its own *raison d'être* and, generally speaking, it is common for each form of control to be approached in isolation. The concept of control covers very different systems and procedures in terms of the conditions and procedures for exercising it, as well as the objective to be achieved.

The reduction or strengthening of control reflects the reality and extent of the autonomy of communes vis-à-vis central government, which led the authors of law 113-14 to introduce: "Control of commune finances" (art. 214), "results-based management" (art. 271), "evaluation, internal control and audit" (art. 272), doing away with tutelage and replacing it with administrative control, and for the first time, talk of administrative autonomy.

### **Article 214<sup>5</sup> : "Control of municipal finances".**

The auditing of municipal finances falls within the remit of the regional audit courts in accordance with the legislation governing financial jurisdictions.

<sup>4</sup> Organic law 113/14 on municipalities.

<sup>5</sup> Organic law 113/14 on municipalities, article 214.

The commune's financial and accounting operations are subject to an annual audit, carried out either :

By the General Inspectorate of Finance ;

Or by the General Inspectorate of Territorial Administration;

Or jointly by the Inspectorate General of Finance and the Inspectorate General of Territorial Administration;

Or by an audit body, one of whose members is a delegate and whose remit is laid down by joint order of the government authority responsible for the interior and the government authority responsible for finance.

A report is drawn up to this effect, copies of which are sent to the president of the commune council, the governor of the prefecture or province and the relevant regional court of auditors. The latter takes the measures it deems appropriate in the light of the conclusions of the audit reports.

The Chairman is required to send a copy of the above report to the local council. The council may deliberate on the report without adopting a resolution.

#### **Article 271<sup>6</sup> : "results-based management"**.

The Chairman of the Commune Council shall take the necessary steps to adopt effective methods for the management of the Commune, in particular :

The definition of functions and the introduction of manuals of procedures relating to the activities and tasks devolved to the administration of the municipality and its executive and management bodies;

Adopting a management by objectives system ;

The establishment of a system for monitoring projects and programmes, setting out the objectives to be achieved and the related performance indicators.

#### **Article 272<sup>7</sup> : "Evaluation, internal control and audit"**,

Under the supervision of the chairman of its council, the municipality must adopt a policy of evaluating its actions, implementing internal control, carrying out audits and presenting a report on its management.

The municipality shall include on its Council agenda the examination of evaluation, audit and control reports and the presentation of the balance sheet. These reports are published, by any suitable means, for public consultation.

### **2.3.The internal audit charter<sup>8</sup>**

As a key player in economic and social development, the Commune is called upon to place the citizen at the heart of its concerns. It must put the principles of good governance into

<sup>6</sup> Organic law 113/14 on municipalities, article 271.

<sup>7</sup> Organic law 113/14 on municipalities, article 272.

<sup>8</sup> The internal audit charter for local authorities.

practice: improving its relations with users, raising the moral standards of public life and laying the foundations for a modern, effective and efficient local administration.

Internal audit is one of the essential tools enabling the Commune to give substance to the principles laid down by the Kingdom's constitution relating to the establishment of rules of governance, control of the management of funds and programmes, evaluation of actions and accountability.

This "Internal Audit Charter" defines the general framework within which Internal Audit carries out its responsibilities, taking into account the control prerogatives granted to the Chairman, in particular under the terms of articles 214, 271 and 272 of law 113-14.

Its purpose is to give the various parties called upon to collaborate in carrying out the assignments (President of the Communal Council, Secretary General, internal auditors, managers of the various entities of the communal administration) reasonable assurance that the internal audits will be carried out in a professional, objective and impartial manner.

The Internal Audit Charter and subsequent updates are subject to approval by the Municipal Council.

### **2.3.1. Internal audit mandate**

The role of the internal audit function is to carry out audits within the Commune's departments and the departments under concession to the Commune.

The internal audit independently assesses the control and risk management processes and the system of governance within the Commune, with a view to helping the President of the Communal Council and those responsible for the Commune's administration to carry out their duties effectively.

### **2.3.2. Scope of internal audit work**

- ***Objectives of internal audit assignments***

Internal audit assignments may aim to verify :

The compliance or regularity of operations and the effectiveness and efficiency of operations.

- **Types of internal audit assignments**

The Commune's internal audit activity focuses on operational and financial audits.

The operational audit involves assessing the efficiency of the municipal administration's operations and the compliance of the operations carried out with the texts and procedures governing them.

The financial audit basically involves checking the reliability of the financial data produced by the Commune, particularly in terms of the budget and the preparation of the administrative accounts.

It may also be involved in examining and assessing the accounts of public establishments dependent on the Commune and companies holding concessions for municipal public services.

- Scope of missions<sup>9</sup>

The Internal Audit department's contribution in this area includes the following activities:

- Verify the extent to which operations are carried out in accordance with the laws, regulations and procedures applicable to the municipality, as well as the deliberations of the Communal Council and the policies and decisions taken by the President of the Communal Council;
- Monitoring internal control, ensuring that the systems put in place take into account changes in the probability of occurrence and severity of all financial and operational risks inherent in the municipality's activities.
- Verify the reliability and completeness of the municipality's financial and operating information, as well as the means used to identify, measure, classify and present this information.
- Examine the measures taken to protect the municipality's assets and verify the extent to which the resources made available to it are used rationally and optimally and in accordance with their purpose.
- Check that the results achieved in carrying out the actions and activities are in line with the objectives set and the municipality's contractual commitments with its partners.

### 3. Internal audit methodology

The conduct of an internal audit assignment requires rigour and great determination, and must obey certain rules which may evolve and be adapted according to the process and/or programme to be audited, on the one hand, and the context and operating conditions of the entity being audited, on the other.

There are three main phases in launching an internal audit assignment: the preparation phase, the verification phase and the conclusion phase.

#### 3.1.Mission launch:

The auditors' involvement with the audited entity begins with the issue of an **engagement order** drawn up by the head of the internal audit entity and signed by the chairman of the municipality.

- The engagement order is the mandate given by the Chairman of the municipality to the internal auditors to carry out their work. It authorises the internal auditor to have access to any person, document or facility during the audit.

- The mission order is sent by the Director of Services to the head of the division or programme to be audited at least **8 days** before the start of the mission, except in cases of urgency indicated in the mission order.

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<sup>9</sup> The internal audit charter for local authorities.



- The assignment order includes all of the following elements:
  - Subject of the internal audit: Determining the scope of the internal audit.
  - Description of the assignment: Detail the content of the assignment and its main objectives.
  - Progress of the assignment: Identify the main stages of the assignment and the planned date of the audit.
  - The people involved: The internal audit team consists of a mission leader, one or more auditors and sometimes business experts specially appointed to provide technical support to the internal audit team.

### 3.2. Study or preparation phase :

#### 3.2.1. Getting to know the subject to be audited :

The study or preparation phase is triggered by a stage consisting of getting to know the subject to be audited. This involves the audit team gathering all the information on the subject or department to be audited. The team's preparatory work consists of discovering the scope of the assignment and forming an initial idea of what is expected in terms of good practice, so that it can compare this with the findings it will make during the assignment.

The engagement leader and the team of auditors hold a **meeting to open the engagement** with the head of the division or programme being audited and his or her key staff, on the engagement start date indicated on the engagement order.

The opening meeting provides an opportunity to :

- Present the purpose and objectives of the assignment;
- Present the methodology for carrying out the assignment;
- Set up a timetable for gathering information and organising interviews.

During this period, the engagement leader ensures that the **permanent engagement file** is compiled. This file contains all the general information on the subject or department being audited. It must include all the basic reference material needed to carry out the assignment in the area to be audited (applicable texts, procedural notes, decisions of the President, circulars from the Ministry of the Interior, etc.).

After a review by the engagement leader of the information and documents collected, the latter provides the internal auditors with an Engagement **Approach Plan**, making it possible to organise the preliminary work (who to meet, what to ask, when). It then serves as a basis for discussion between the auditor and his manager to validate the direction of the assignment and by assessing the real risks of a given malfunction.

COMMUNE DE .....

<b>Internal audit entity</b>		<b>Ref:</b>
<b>Mission</b>	<b>PLAN OF APPROACH</b>	<b>Year :</b>

**Subject of the audit:** .....

**Objectives of the preliminary internal control assessment phase :**  
 .....  
 .....

**Modular breakdown :**

<i>Module</i>	<i>Objectives specific</i>	<i>Related risks</i>	<i>Applicable procedures</i>	<i>Remarks knowledge</i>

**Figure 2: Plan of approach mode.**

Preliminary assessment of internal control :

During this stage, the auditor maps out the processes to be audited, enabling them to identify potential risks.

The audit team identifies potential risks under the supervision of the engagement leader, using appropriate tools and techniques in accordance with current professional standards (flow-charts, internal control questionnaires, etc.).

On completion of the preliminary assessment of internal control, the audit team :

- Summarises analyses and conclusions.
- Draws up the *table of apparent strengths and weaknesses (TFfa)*.

The TFfa is the tool that enables the auditor to define the scope and limits of his investigations and to structure the presentation of his analyses and conclusions. The purpose of the TFfa is to take stock of the actual or potential strengths and weaknesses of the entity or programme to be audited.

The TFfa states:

- the area or operation concerned, depending on the modular breakdown used ;
- The purpose of the control ;
- Potential risks ;
- Indicators: internal control systems for managing potential risks ;

- the strengths and weaknesses identified by the auditor during the preliminary work phase and for each control objective;
- Consequences of identified weaknesses;
- Assessment of the significance of the feared impact (low, medium, high);
- Any comments that the auditor feels should be added.

<b>COMMUNE DE .....</b>								
<b>Internal audit entity</b>						<b>Ref:</b>		
<b>Mission</b>			<b>TABLE OF APPARENT STRENGTHS AND WEAKNESSES</b>			<b>Year :</b>		
<i>Domain</i>	<i>Control objective</i>	<i>Potential risks</i>	<i>Indicators</i>	<i>Strengths and weaknesses</i>		<i>Consequences</i>	<i>Impact (low, medium, high)</i>	<i>Comments</i>
				<i>Forces</i>	<i>Weaknesses</i>			

**Figure 3: Model of the table of apparent strengths and weaknesses**

Once the TFFa has been validated by the engagement leader, the latter draws up a **Guidance Note** and submits it to the head of the internal audit entity.

The head of the internal audit entity approves the guidance note and sends it to the Chairman of the Local Council under cover of the Director of Services.

The guidance note includes :

- Defining the areas of investigation for the audit, based on the conclusions of the preliminary assessment of internal control;
- Determining the limits of the assignment ;
- Defining the objectives to be achieved by the audit.

<b>COMMUNE DE .....</b>		
<b>Internal audit entity</b>		<b>Ref:</b>
<b>Mission</b>	<b>GUIDANCE NOTE</b>	<b>Year :</b>
<b>Mission</b>		
<b>Defining the areas of investigation</b>		
<b>Scope of the mission</b>		
<b>Mission limitations</b>		
<b>Objectives</b>		
.....		
<b>The Head of Mission The Head of the Internal Audit Department</b>		

**Figure 4: Guidance note template**

**3.3.The verification phase :**

During the verification phase, the auditors enter the field part of their internal audit assignment, as most of their time will be spent in the departments concerned by the assignment.

**3.3.1. Preparation of audit work :**

The Engagement Leader establishes an **Audit Programme on the** basis of the preliminary assessment of internal control emerging from the table of apparent strengths and weaknesses and the Guidance Note.

The audit programme is a document designed to define, allocate, plan and monitor the work of the internal auditors. In other words, the audit programme is the list of work to be carried out by the auditor.

<b>COMMUNE DE .....</b>				
<b>Internal audit entity</b>				<b>Ref:</b>
<b>Mission</b>	<b>VERIFICATION PROGRAMME</b>			<b>Year :</b>
Nature of the work to be carried out	Budget	Auditor	Ref F.C	Ref FT
.....				

**Figure 5: Audit programme model**

**3.3.2. Carrying out verification work :**

During the audit work phase, each task in the audit programme is the subject of a **Cover Sheet**, drawn up by the audit team and submitted to the engagement leader for approval.

The cover sheet is the link between the audit programme and the auditors' worksheets containing the conclusions of the field investigations.

For each task, the cover sheet defines the control objectives, the population to be surveyed and the sample to be checked, and of course the nature of the checks to be carried out on the sample.

The head of mission informs the head of the audited division or programme of the schedule of checks that will be carried out to ensure that the documents, people, goods and premises needed to carry out the work are available.

<b>COMMUNE DE .....</b>					
<b>Internal audit entity</b>					<b>Ref:</b>
<b>Mission</b>	<b>Cover sheet</b>				<b>Year :</b>
<b>Module: .....</b>					
Operation check	Objectives of control	Population	Sample	Type of test	Reference sheet of work
<b>Operation check</b>		<b>Conclusions</b>		<b>Reference FRAP</b>	
<b>.....</b>					
<b>The auditor</b>			<b>The mission leader</b>		

**Figure 6: Cover sheet model**

The audit team carries out the audit work using techniques that enable :

- Gather sufficient information to form a reasoned opinion on the audited operations;
- Identify design strengths and ensure they are applied;
- Identify weaknesses arising from inadequate application or non-application of internal control procedures;
- Assess the impact of design and implementation weaknesses on the implementation of the commune's activities and programmes.

These audits are carried out using various **audit techniques and with** the help of the **Internal Audit Practical Guide**.

• **Audit techniques :**

**Existence tests:** Ensuring the existence of internal control systems as described by the auditee.

**Continuity tests:** to check that the key points of the internal control system are operating regularly, and to identify and quantify cases where the key points are not operating or where there is a malfunction in their application.

**Validation tests:** ensuring that records are consistent with the corresponding supporting documents.

**Physical observation:** verifying the reality of material elements or information by physically observing their existence.

**Surveys:** Verify documents or data from a sample with a view to extrapolating the results obtained to the population concerned.

**Direct confirmation:** Verifying the validity of information or data provided by the audited entity by cross-checking.

**Analytical procedures:** Ensuring the consistency of data provided by the audited entity and identifying new audit leads

- **Practical guide to internal audit :**

The practical guide to internal auditing consists of tools to help internal auditors orient and structure their work, based on standard internal control assessment programmes and audit programmes.

The guide includes a checklist of questions to ask and checks to carry out, in order to ensure that the internal control systems put in place make it possible to control the risks associated with the compliance, regularity and effectiveness of the municipality's various processes.

Identified malfunctions are grouped by problem and are the subject of **Problem Revelation and Analysis Sheets (PRAS)** drawn up by the internal auditor and presented to the engagement leader.

The FRAP is the summary working paper on which the auditor presents and documents each malfunction. It concludes each section of the work and is used to communicate with the auditee concerned.

The FRAP draws attention to the consequences of malfunctions and the auditor's recommendations, rather than the weaknesses themselves. It highlights the risks arising from non-compliance with the rules caused by the failings.

Any malfunction worthy of being reported will be formulated in the form of a FRAP, summarising: the problem, the facts, the causes, the consequences and the recommendations.

The FRAPs are submitted to the Engagement Leader for validation and then discussed with the auditees in accordance with the process set out in the conclusion phase.

<b>COMMUNE DE .....</b>		
<b>Internal audit entity</b>		<b>Ref:</b>
<b>Mission</b>	<b>DISCLOSURE SHEET AND PROBLEM ANALYSIS</b>	<b>Year :</b>
<b>Domain:</b>		
<b>Problem:</b>		
<b>Facts :</b>		
<b>Causes:</b>		
<b>Consequences:</b>		
<b>Recommendations:</b>		
.....		

**Figure 7: Sample problem identification and analysis sheet**

**3.4.The conclusion phase :**

**3.4.1. Summary of conclusions :**

The internal audit team forms *the backbone of the audit report*, which is drawn up on the basis of the issues set out in the FRAPs and the conclusions set out in the cover sheets. The backbone of the report is seen as a sequence of messages that the internal auditor wants to deliver in the report concluding the assignment.

The head of mission, in the presence of the internal audit team, holds a *Validation Meeting* with the head of the audited division or programme, at which the most important observations are presented.

At the end of this meeting, the engagement leader draws up a **final report** summarising the decisions taken. This report must be validated by the head of the audited division or programme before it is sent to the head of the internal audit entity.



### 3.4.2. Preparation of the internal audit report :

The engagement leader prepares the draft internal audit report on the basis of :

- Problem identification and analysis sheets produced by the auditors and validated by the mission leader.
- Decisions taken at the validation meeting held with the head of the audited entity.

This is the most important document, issued by the internal audit department and binding on the chief audit executive. It differs from the final report in that it is complete, conclusive, written and final. It must be submitted to the head of the internal audit entity for approval before the **provisional internal audit report** is issued; the latter is given to the director of services, who forwards a copy to the head of the division or programme audited.

The Director of Services shall convene a **meeting to validate the provisional internal audit report**, to which the head of **the** internal audit entity, the head of mission, the head of the division or programme audited and any other manager whose contribution he or she considers useful shall be invited.

After this meeting, the engagement leader draws up the **final internal audit report, taking into** account the observations made during the meeting to validate the provisional audit report, and submits it to the head of the internal audit entity for validation.

The audit report is not neutral; it analyses a situation, but focuses mainly on the dysfunctions, in order to develop actions for progress, without omitting to mention the strong points. It also contains recommendations for improvement.

<b>COMMUNE DE .....</b>		
	<b>Internal audit entity</b>	<b>Ref:</b>
<b>Mission</b>	<b>INTERNAL AUDIT REPORT</b>	<b>Year :</b>
<p><b>PURPOSE OF THE ASSIGNMENT :</b></p> <p><b>MISSION OBJECTIVES :</b></p> <p><b>APPROACH TO THE ASSIGNMENT :</b></p> <p><b>FINDINGS AND RECOMMENDATIONS (F.R.A.P.) :</b></p> <p><b>RECOMMENDATIONS SUMMARY MATRIX :</b></p>		

**Figure 8: Internal audit report template**

### **3.4.3. Publication and distribution of the internal audit report**

The head of the internal audit department submits the final internal audit report to the Chairman of the Local Council, together with a **summary note**.

At the initiative of the Chairman and in the presence of the Director of Services, the head of the internal audit department, assisted by the engagement manager, presents the final internal audit report in :

- Outlining the objectives and conditions of the assignment.
- Summarising the main findings and conclusions of the assignment.
- Presenting the main recommendations proposed.
- Proposing how the final audit report will be distributed.

On the instructions of the President of the Local Council, the head of the internal audit unit will publish and distribute all or part of the final internal audit report to the relevant managers in the municipality, with a view to taking the necessary corrective action.

To conclude this section, we can say that the internal audit assignment, from the planning phase, the conduct of the assignment, to the follow-up of the recommendations, completes the role played by internal control within the local authority, by insisting on strengthening the municipality's weak points, while trying to minimise the sanctions that an inspection assignment may subsequently declare. This helps the president of the local authority to have a clear vision of the work being done in his organisation, by means of a scoreboard backed up by recommendations that are followed up by other missions. This is regulated by an internal audit charter at the level of the local council, during an ordinary session, as a priority for the chairman and all the members of the council.

## **4. Setting up an internal audit unit: the case of the municipality of Safi :**

Referring to the principles of the 2011 Constitution concerning the strengthening of local democracy and good governance, as well as the importance increasingly given to local authorities, following their primordial role in social, economic and human development, and in the context of the generalisation of monitoring and evaluation of results, the municipality of Safi has discovered the importance of setting up an internal audit unit within its departments, and has begun to adopt the measures necessary for its implementation.

### **4.1. The steps involved in setting up and monitoring Safi's internal audit unit :**

In accordance with the powers of control enjoyed by the presidents of the communes, which are laid down in articles 214, 271 and 272 of organic law 113-14 relating to local authorities<sup>10</sup>, and within the framework of the Local Governance Programme<sup>11</sup> " P.G.L. ", which is part of the cooperation between the General Directorate of Local Authorities and the United States Agency for International Development " U.S.A.I.D.", represented by R.T.I.

<sup>10</sup> Organic law 113/14 on municipalities.

<sup>11</sup> Local Governance Programme, which monitors the implementation of decentralisation support strategies by the Directorate-General for Local Authorities.

International<sup>12</sup>, the Municipality of Safi has benefited from a programme aimed at providing support and guidance during the process of setting up an internal audit unit or service within the Municipality of Safi.

The priority of this programme was to support the municipality of Safi through :

- Raising awareness of the importance of internal audit.
- Training a team of internal auditors in audit methods and techniques.
- The preparation of a risk map for the Municipality of Safi.
- Supervision of the team of internal auditors in the first planned assignments.
- Internal and external communication on the experience of creating internal audit.

#### **4.1.1. Raising awareness of the importance of internal audit :**

- **The objective:**

Determining the importance of internal audit, which lies in the function's ability to add value by improving the achievement of the local authority's objectives and work procedures, as well as reducing risks to acceptable levels.

- **The categories concerned:**

- Elected representatives.
- Heads of Division.
- Heads of department.
- Local authority departments.

To this end, on 23, 24 and 25 March 2011, awareness-raising meetings were organised for the commune's executives, while 19 May of the same year was reserved for the vice-presidents. June 16 was scheduled for council members and local executives.

#### **4.1.2. Diagnosis stage :**

This stage was carried out at the same time as the awareness-raising stage and aimed to :

- Determining the activities and organisation of the municipality.
- An assessment of the current state of internal control within the local authority.
- Simplifying the preparation of risk mapping.
- Determining the needs of the municipality of Safi in the field of internal audit.

This diagnostic stage enables us to check whether there are any risks that could hinder the achievement of the objectives set by the municipality. This stage lasted around 3 months, from March to June 2011.

#### **4.1.3. The internal auditor training stage :**

The training of internal auditors was for the benefit of executives from the Municipality of Safi. The training was divided into two sections, one theoretical and the other practical in internal auditing, with a view to enabling them to acquire the methodology and techniques of

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<sup>12</sup> RTI International is one of the world's leading research institutes, committed to improving the human condition by transforming knowledge into practice.

internal auditing, and to qualify them to carry out internal audit assignments with professionalism, in line with international criteria in the field.

- **Theoretical training :**

It benefited a team of internal auditors from the Safi local authority, through workshops supervised by a consultancy firm "Auditas", according to the following training programme:

<b>The date</b>	<b>The subject</b>
<b>16 June 2011</b>	The concept of internal control and internal audit
<b>29 June 2011</b>	Internal audit methodology and techniques
<b>30 June 2011</b>	The main internal audit resources.

- **Practical training :**

It was for the benefit of the internal auditors of the Municipality of Safi, through two mission experiences supervised by a consultancy firm "Auditas", according to the following training programme:

<b>The date</b>	<b>The subject of the mission</b>
	Internal audit of the Park department
<b>From 26 September 2011</b>	of the commune in terms of equipment maintenance.
<b>At 15 January 2012</b>	The internal audit of the tax on the temporary occupation of public property for commercial, industrial or ...

#### **4.1.4. The risk mapping preparation stage :**

The aim of risk mapping is to enable those in charge of the Commune de Safi to sort out the most urgent risks that affect the Commune's activities and hamper the achievement of the objectives set at the outset, by assessing the likely repercussions of these risks and the degree of adaptation of the resources available, as well as helping to set up a risk management system and an internal audit programme according to the urgency of the risks.

As a result, the risk mapping of the Municipality of Safi was prepared in three essential phases:

- Analysis of the course of operations.
- Determining the gross risks relating to the conduct of operations.
- Assessing the extent to which risks are managed jointly and preparing a map of net risks.

This phase lasted from 24 December 2011 to April 2012.

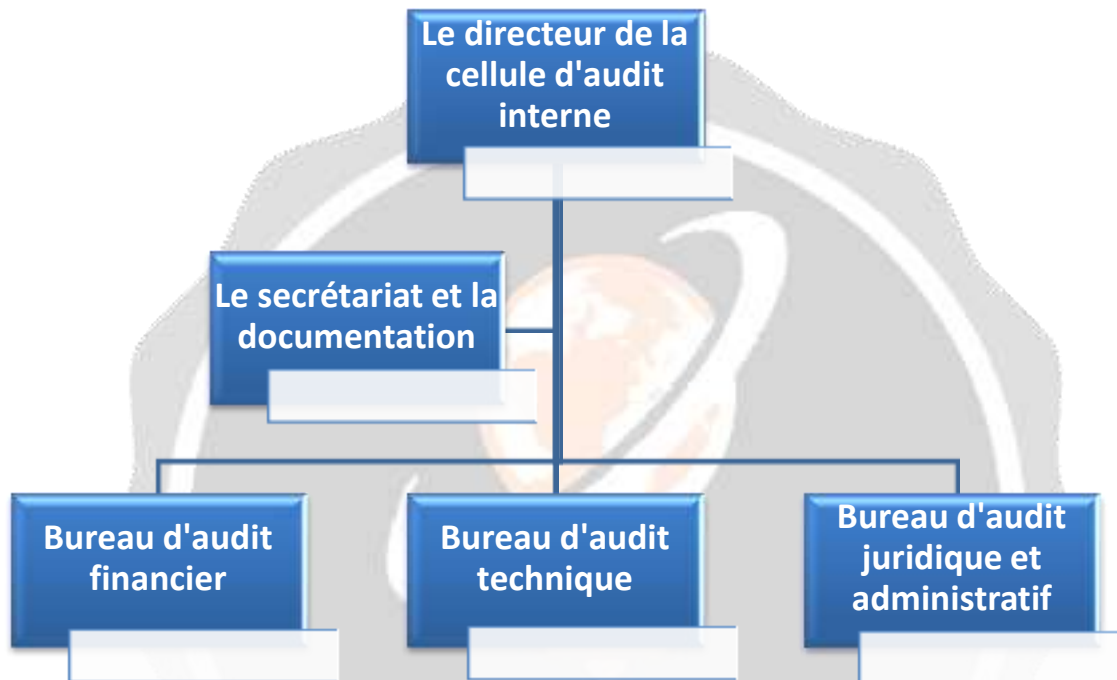
#### **4.1.5. Setting up an internal audit department or unit :**

The internal audit unit was initially made up of 7 managers with different backgrounds and specialities (engineering, legal sciences, economics, etc.). The Internal Audit Charter provides the general legal framework within which the Internal Audit department carries out

its duties. The internal audit unit was created in December 2012 at the Commune of Safi. The Internal Audit Charter was ratified during the ordinary session of February 2013.

The Safi Commune's Internal Audit Charter states that the internal audit unit is under the organisational responsibility of the Chairman of the Commune Council, while on the administrative side the internal auditors work under the responsibility of the Commune's Director of Services.

**Organisation chart of the internal audit unit of the municipality of Safi :**



The internal audit unit uses cards to describe the tasks assigned to the various functions or responsibilities within the unit.

The unit also has a procedure manual, which contains all the procedures and documents that facilitate the exercise of responsibilities within the legal and legislative framework organising the activities of the communes, in compliance with the Internal Audit Charter and international internal audit references.

## **4.2. Report on the activities of the internal audit unit :**

The first few years of work by the internal audit unit at the Safi municipality were characterised by a number of activities.

### **4.2.1. The activities of the internal audit unit :**

The work of the internal audit unit at the municipality of Safi over the first few years has been characterised by the following activities:

- 3 internal audit assignments.
- Participation in the study and awareness-raising day on : Internal audit and its role in enshrining the principles of local governance. The day organised on 17 December 2013 at the Administrative Complex of the Ministry of the Interior by the Directorate General of Local Authorities "D.G.C.L."
- The organisation of a training session for executives from the municipality of Tétouan, in the field of internal audit, from 03 to 07 March 2014, at the headquarters of the municipality of Safi, as part of inter-municipal cooperation.
- Participation in the awareness-raising day on internal audit and territorial governance, organised by the Direction Générale des Collectivités Territoriales on Thursday 10 April 2014 in Kenitra.
- Participation in the awareness-raising day on internal audit and territorial governance, organised by the General Directorate of Local Authorities on Thursday 17 April 2014 in Safi, in collaboration with the Wilaya of Doukala Abda (former regionalisation) and the American International Development Agency "U.S.A.I.D."
- Participation in the awareness-raising day on internal audit and territorial governance, organised by the Direction Générale des Collectivités Territoriales on Thursday 08 May 2014 at the Palais des Congrès in Fez, in collaboration with the Wilaya of the Fez-Boulmane region (Former regionalisation).
- Participation in the awareness-raising day on internal audit and territorial governance, organised by the Directorate General of Territorial Authorities on Thursday 12 June 2014 at the headquarters of the Tangier Tetouan region.

#### **4.2.2. The assignments carried out<sup>13</sup> :**

The internal audit unit at Safi Commune carried out three main assignments between 2012 and 2015.

##### **4.2.2.1 Mission 1: Internal audit of the Safi bus station in 2013:**

This assignment was the longest in terms of time, as it was the first experience of the internal audit unit, despite the ongoing collaboration with the AUDITAS consultancy. This assignment produced an interesting result, which had repercussions on subsequent assignments.

- The objectives<sup>14</sup> :

To determine the legal, administrative, financial and property situation of the bus station during the period between 2005 and 2012, in order to verify :

- The degree to which laws are applied.
- The management methods applied and their compliance with current legislation.

<sup>13</sup> Audit files archived at the Safi internal audit unit.

<sup>14</sup> Audit files archived at the Safi internal audit unit.

- The administrative situation of employees.
- Check that the land base for the bus station has been cleared.
- Verify the financial situation and the efficiency of the bus station's financial management.
- Present the necessary recommendations.

The axis	Recommendations	The degree of execution
<b>Legal</b>	The adoption of the necessary measures to notify and execute the verdict of the Casablanca Commercial Court of Appeal denouncing the bus station company.	<ul style="list-style-type: none"> <li>- Adoption of the communal council, management within the framework of a local development company.</li> <li>- Percentage of execution: 70%.</li> </ul>
<b>Land</b>	<ul style="list-style-type: none"> <li>- Registration and conservation of all the plots of land forming the station's land base in the name of the municipality of Safi.</li> <li>- Updating topographic plans, taking buildings into account.</li> <li>- Updating land documents and the municipal property register.</li> </ul>	<ul style="list-style-type: none"> <li>- The conservation of all the land titles forming the land base of the bus station in a single land title in the name of the municipality of Safi.</li> <li>- The regularisation of the situation of the station building by registering it and keeping it in the name of the municipality.</li> <li>- Percentage performance: 100%.</li> </ul>
<b>Administration and finance</b>	Finalising the procedures for updating the legal status of the bus station.	Execution in progress.

#### 4.2.2.2. Mission n°2<sup>15</sup> : Internal audit of the delegated management agreement for the waste recovery sector in 2014:

The second mission concerns the internal audit of the delegated management agreement for the waste recovery and recycling sector, linking the Municipality of Safi and the company concerned.

- Objectives:
  - Verification of compliance with the monitoring and control provisions of the agreement on delegated management of the public cleaning service.
  - Verification of the effectiveness of procedures carried out as part of the control and monitoring of delegated management to protect the municipality against probable risks.
  - Determining the likely states of non-compliance with the provisions of the agreement, and proposing recommendations to this end.

<sup>15</sup> Audit files archived at the Safi internal audit unit.

- The presentation of recommendations to improve the control and monitoring of the implementation of the delegated management agreement.

The results of this mission were presented on Wednesday 30 April 2014, through a set of recommendations concerning the following areas:

- Monitoring structures and resources.
- Organisation of the control department's remit.
- The internal control system.
- Control and execution of services.
- Control of buildings and equipment.
- The situation of the properties available to the company.
- The financial axis.

Following instructions from the president of the Safi local council, work has begun on implementing the recommendations made by the internal audit unit.

There are 43 recommendations<sup>16</sup> recorded during the second mission, the most important of which are :

- The creation of a monitoring committee in accordance with legal and contractual provisions, clearly defining its responsibilities.
- Provide the equipment and human resources required by the inspection department.
- Preparing job descriptions and a procedures manual.
- Preparing an information and management system to guarantee data reliability.
- Reviewing and analysing the various documents sent by the company concerned.
- The precision of the document analysis procedure.
- Setting control programmes.
- Handling complaints through on-site checks in accordance with the agreement.
- Assigning a 4-strong control unit (with a permanent element at the landfill site), responsible for controlling the weight of waste at the public landfill site.
- Checking lorry loads to verify their nature at a moment's notice.
- The seat designed to weigh public waste is fitted with sanitary and safety equipment.
- Recording of the operation to control access to the public landfill site, as well as the new locations reserved for the burial of household waste.
- Setting control programmes for resources and equipment.
- Company telephone number recorded on all trucks.
- Guarantee the visa on tickets recording the weight of waste on a permanent basis.
- Programming of the appropriations needed to finance the agreement, to guarantee the financial equilibrium of the current agreement.

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<sup>16</sup> Audit files archived at the Safi internal audit unit.



#### 4.2.2.3. Mission no. 3<sup>17</sup> : Internal audit of the agreements linking the municipality to the Régie Autonome de Distribution de l'Eau et de l'Electricité de Safi in 2014:

- Objectives:
  - Verification of compliance with the provisions of the agreements between the municipality of Safi and the Régie Autonome de Distribution de l'eau et de l'électricité de Safi.
  - Verification of the procedures used to audit the agreements between the Safi local authority and the Régie Autonome de Distribution de l'eau et de l'électricité de Safi.
  - Detecting cases of non-compliance with the provisions of these agreements.
  - Recommendations for improving the control, monitoring and performance of agreements.
- The main points of the agreement :
  - The technical support and maintenance agreement for the public lighting network.
  - The agreement to maintain the equipment and monitor the fountains.
  - The two loan repayment agreements.
  - The structure of water and electricity consumption.

This third mission was completed in 2015, with the drafting of the provisional minutes, while the presentation of the results will take place in the coming days.

In 2015 and 2016, the focus was very much on the commune and legislative elections, which delayed the completion of new internal audit assignments for the unit. The end of 2016 saw the start of a new assignment concerning the Tax on Undeveloped Land at local authority level.

## 5. Conclusion

The last decade has been marked by the Kingdom's determination to put into operation the good governance project initiated as long ago as 2008, with the promulgation of the new constitution in 2011, which established a number of institutions working to ensure good governance, equal opportunities and social equity, and the correlation between responsibility and accountability, followed by the implementation of the LGP, which goes hand in hand with the Kingdom's expectations in terms of modernising the Moroccan administration in general and the territorial administration in particular.

In a context marked by increasing accountability, it was time to make cross-cutting changes to communal management. This was the purpose of Organic Law 113.14 on Communes, which endowed communes with a set of prerogatives and missions, with the overriding aim of developing the Kingdom's regions.

However, achieving integrated and sustainable regional development requires the application of a series of measures, starting with the improvement and modernisation of municipal management and its management style. It is with this in mind that the LGP has

<sup>17</sup> Audit files archived at the Safi internal audit unit.

introduced the foundations of good local governance, in particular raising awareness of the need for communes to equip themselves with an internal audit structure that will enable them to detect the risks they face, evaluate them, and ultimately help them to achieve the objectives they have set themselves.

The creation of a local authority internal audit unit will undoubtedly give local authorities a degree of control over their risks, whether financial or administrative. It will also give them a macro view of their entity, which they can then use to make choices and take the right decisions.

However, even if it is easy to set up an internal audit structure from an organisational point of view, this is far from being the case in reality, given the several factors and constraints that hinder this long-awaited initiative. These constraints relate in particular to the audit culture, which is unfortunately lacking in the environment of local authorities, ignorance of the audit function or, even more problematic, its confusion with the inspection function, which has always had an image of a 'policeman' seeking only to punish and crack down, and also the intellectual inadequacy noted among the majority of elected representatives and local authority chairmen, to name but a few.

Despite these obstacles, which are slowing down the process of setting up communal internal audit structures, ample efforts have been made to overcome these constraints, in particular by the DGCL of the Ministry of the Interior, in collaboration with the IGAT and USAID, which are combining their efforts to make this project a success, by providing the necessary training, assistance and support to local authorities which are finding it difficult to structure and manage their internal audit unit, or which have not yet been able to take full advantage of the added value that the audit function can bring them in terms of effectiveness, efficiency and effectiveness. These considerable efforts will still not be enough to extend an internal audit unit to all communes, given that there are 1503 of them, especially since only five communes have implemented an audit structure within their organisation since the process was launched in 2012. The question that is currently being asked is whether this process will begin its journey towards completion, and if so, how long will it take for it to become widespread and complete. What is certain is that only time will tell what will happen to this essential and priority project, which is designed to put into practice and establish the principles of good territorial governance for all local authorities.

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