

PEMPAL IACOP Plenary Meeting

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Session 5

Spain: Internal Audit in Public companies

Good Practices in Internal Audit reporting

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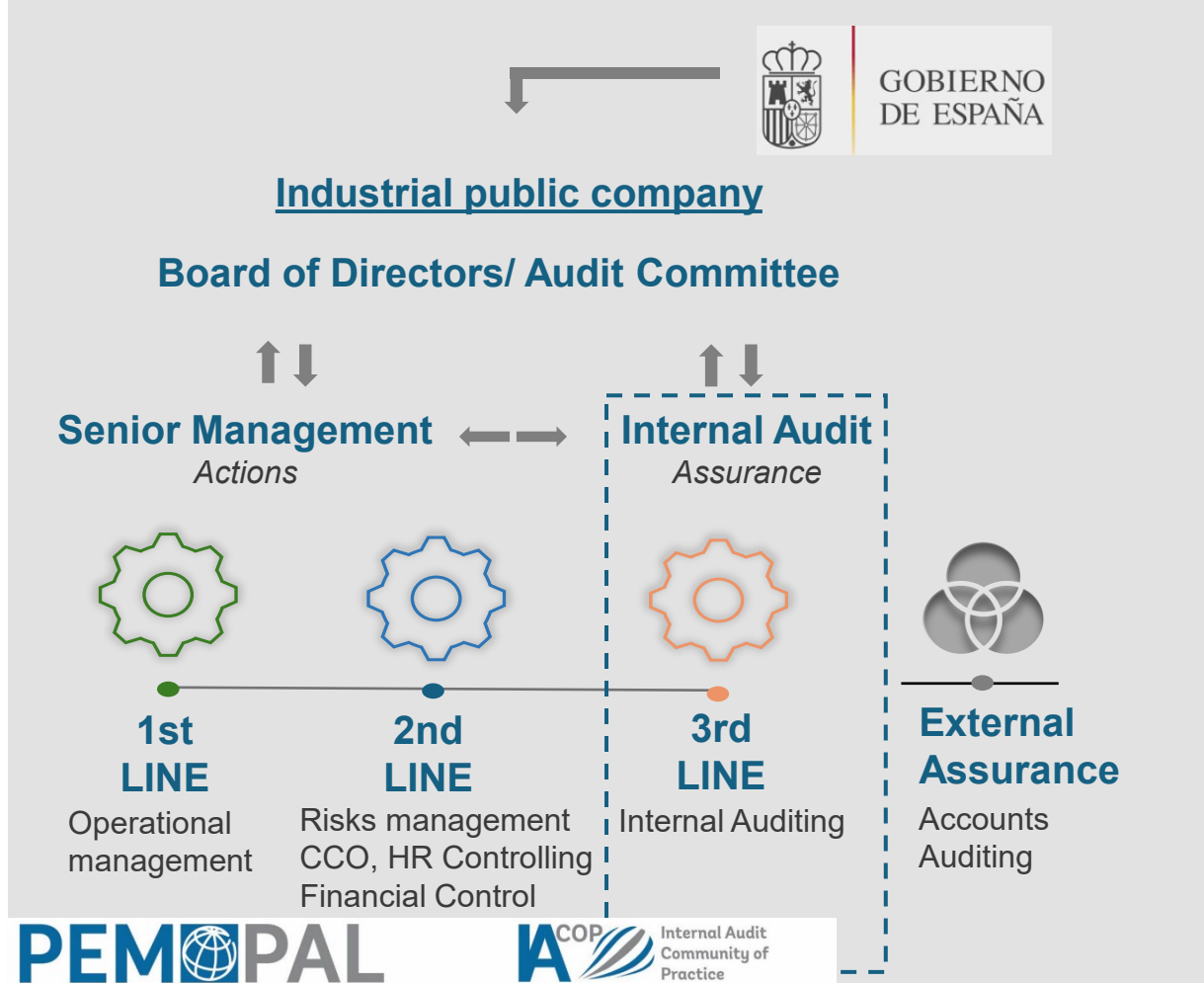
I. Internal Audit in Public Companies

The IIA'S three lines model



Organizational Chart

Governing the IA function



- The board establishes, approves, and supports the mandate of internal audit function (Internal Audit Charter) → Internal Audit Manual
- Positioned independently and Functional dependency of Board of Directors by Audit Committee
- Navantia Internal Audit develops the strategy, guidelines and general supervision of the Internal Audit function at Group level
- Report to the board and Senior Management
- Available resources

I. Internal Audit in Public Companies

The IIA'S functions



INTERNAL AUDIT PLAN



- Risk at the top of the Audit Plan
- Organization group proposal
- Control processes of the activities under review
- Evidence and reporting of recommendations



External Audit – Court of Audits, IGAE, Accounts Auditing

I. Internal Audit in Public Companies

Other functions. Value addition

Regulatory framework

- ✓ Public sector
- ✓ Industrial company
- ✓ State-owned commercial company

Risk at the Front and Center

Collaborate Closely with the First and Second Line of the company

Data Analytics - intuitive dashboards

More focus on Foresight, Less on Hindsight

II. Good Practices and Experience from Spain on Internal Audit Reporting.

II.A Horizontal audits

What are they?

- Control actions conducted across multiple managing bodies
- Performed using common programmes and methodology
- Selected based on risk criteria.

What is the objective?

- To ensure the efficient allocation of control resources
- To produce cross-cutting reports with high added value.

How are they selected?

- Risk analysis is performed in key management areas: procurement, grants, personnel, treasury, and strategy.
- Based on an initial subjective assessment and the application of indicators, a weighted risk score is determined for each entity/management area.
- Specific control actions are then selected for inclusion in the Control Plan

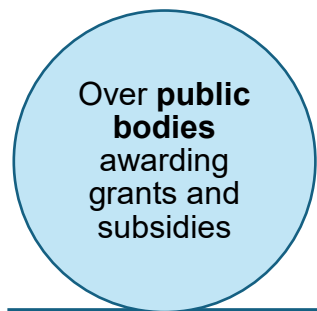


- ✓ Overall assessment of controlled horizontal management
- ✓ Results and recommendations for each managing body

II. Good Practices and Experience from Spain on Internal Audit Reporting.

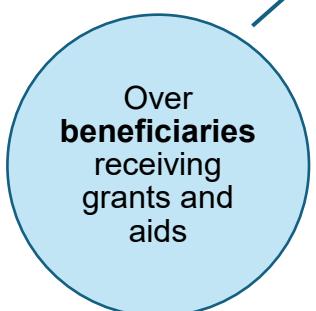
II.B Auditing Grants and Aids

Two areas of control



Control is exercised through standard internal control mechanisms:

- Intervention function
- Permanent financial control



Control is carried out by the IGAE under the powers established by specific legislation: the General Grants Law.

Control of grants and aid beneficiaries

Control objective, to verify:

- the proper award, use, and justification of the grant
- the validity and regularity of the operations financed
- the appropriate and correct funding of the supported activities

Planning and selection of actions according to criteria of:

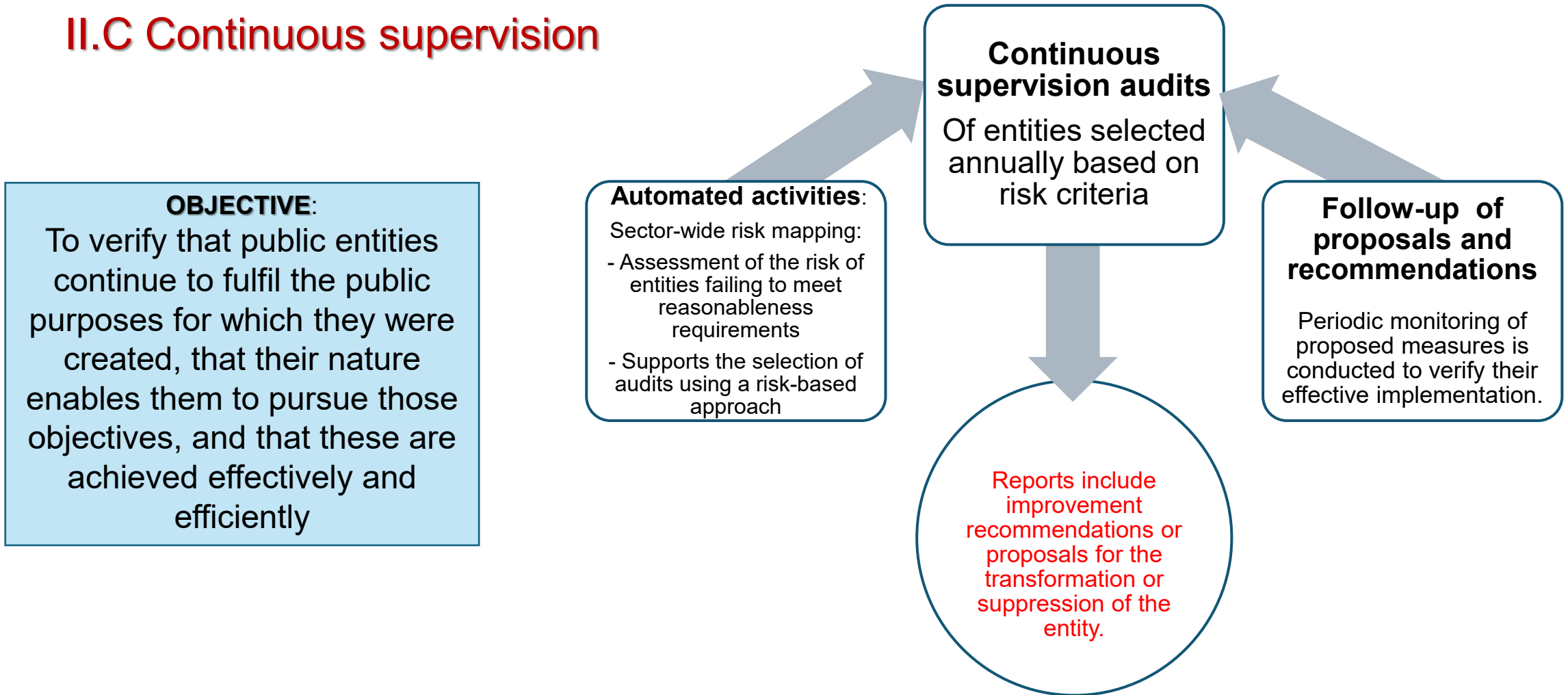
- Fraud risk
- Control visibility
- Effectiveness of available resources

Reports content:
A conclusion on whether or not reimbursement should be required from beneficiaries

Collaboration in administrative or judicial actions to enforce the reimbursement requirement and to pursue administrative, financial or criminal liability.

II. Good Practices and Experience from Spain on Internal Audit Reporting.

II.C Continuous supervision



II. Good Practices and Experience from Spain on Internal Audit Reporting.

II.D Special reports to Court and Prosecutors office

- Reports derived from control activities

Issued at the initiative of the IGAE

When, in the course of control activities, actions are identified that may constitute criminal offences, the matter is referred to the Prosecutor's Office

Where the suspected offences affect the financial interests of the European Union, the matter is referred to the Spanish Delegation of the European Public Prosecutor's Office (EPPO).

The report must contain: Suspected offences identified, the parties considered responsible, and the actions taken by the managing body.

- Reports requested by courts and prosecutors

Issued by the IGAE at the request of courts and prosecutor's offices

Exclusively within criminal proceedings

On matters within the IGAE's remit (public economic-financial management, public procurement, grants, accounting, etc.)

The IGAE does not conduct judicial investigations; its reports are issued solely on the basis of the documentation provided by the court or prosecutor's office

III. Key Achievements and Challenges

Key achievements

- ✓ Integration of risk analysis as the starting point for preparing the audit plan
- ✓ Increasing use of IT tools for both audits and risk analysis
- ✓ Development and implementation of a system of quality management in the performance of the audit work

Main current challenges. Legal amendments in process

- ✓ Strengthening coordination of internal control across the three levels of government
- ✓ Harmonizing of the internal audit scope by setting up basic requirements in the internal audit functions in public companies and foundations
- ✓ Expanding the use of data mining tools to check and prevent conflict of interest
- ✓ Citizen Participation in Government Audit