

PEMPAL IACOP Plenary Meeting

March 3-5, 2026, Madrid, Spain



**Spain: Internal Audit Model in Practice. Presenting and
Discussing the Practical Considerations**

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I. Different sorts of audits



Financial and economic management control features



Ex-post Control. Auditing

- Income control.
- Legal compliance check, good financial management and accounts.
- Unplannable controls, in relation to regulatory obligations or legal instruments.
- Planned risk-based controls.
- Adversarial review.
- Sample-based effectiveness (without suspensive effects)

The legal nature of the entities that comprise the state's Public Sector determines their legal regime, including their **accounting practices, budgets, and forms of control.**

Values





I. Different sorts of audits

Centralized system

Actors within the system:

- Delegated, regional and territorial comptroller offices (support)
 - ↳ Planning proposal (questionnaires on management risk assessment)
 - ↳ Implementation of controls
- Central services: National Audit Office (ONA)
 - ↳ Horizontal control proposal
 - ↳ Weighted risk approach
 - ↳ Planning coordination
 - ↳ Control and monitoring of implementation (Audinet)
 - ↳ Issuance of application instructions



1. Permanent Financial Control (PFC)

What is the purpose of permanent financial control?



- To verify on an ongoing basis that the financial and economic activity of the local public sector is in line with the legal order and adheres to general principles of good financial management, **with the ultimate aim of improving the management function** in its economic, financial, patrimonial, budgetary, accounting, organizational, and procedural dimensions.
- Through recommendations for correcting any situations that may need attention.
- By applying auditing techniques.



*A 31 de diciembre de 2024



2. Public Auditing



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The **purpose** of **public auditing** is to systematically verify on an ex-post basis the financial and economic activity of the audited entities, through the application of the selective testing procedures outlined in the audit standards and instructions issued by the General Comptroller of the State Administration (IGAE).

a) Financial audit and compliance with accounting standards (accounts audit)

b) Compliance auditing

c) Operational auditing

The IGAE may decide to conduct audits that combine all three objectives



I. Different sorts of audits

Centralized system

Central Services and Delegated Comptroller's Offices

- Ministries
- Autonomous agencies
- State agencies
- State-owned enterprises

Regional Services

- 1 Regional Comptroller's Office for each Autonomous Community (17)
- 1 Territorial Comptroller's Office for each province (50+Ceuta and Melilla)

Actors within the system

- Central services - ONA, delegated comptroller's offices and territorial structure
 - ↳ Planning proposal
 - ↳ Implementation of controls
- Central services: ONA
 - ↳ Annual audit plan
 - ↳ Direct implementation
 - ↳ Risk-based approach
 - ↳ Coordination of planning and audits in comptroller's offices
 - ↳ Control and monitoring of implementation (Audinet)
 - ↳ Issuance of Audit Regulations
 - ↳ Issuance of instructions
 - ↳ Private collaboration

Possible public audit assignments



II. Different sorts of audits

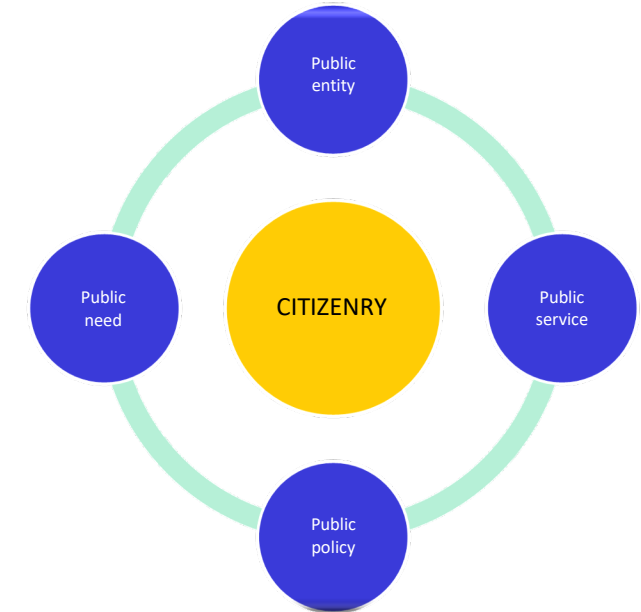
3. Continuous Monitoring

Its objective is to monitor on an ongoing basis the rationale for the existence of public bodies



What does this verify?

- ✓ That the circumstances that justified the establishment of a public entity **still exist**
- ✓ **Financial sustainability**
- ✓ The existence of **grounds for dissolution** as defined by the Legal Regime of the Public Sector (LRJSP) as it relates to failure to comply with the aims that justified the creation of the entity or that its continued existence is not the most ideal way to achieve these aims.



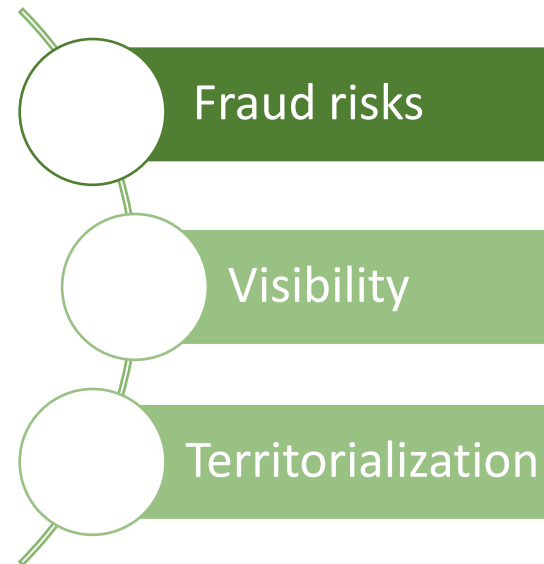
The system of continuous monitoring comprises **a set of procedures prepared by the IGAE, involving automated actions and continuous monitoring audits**. These are designed to advise bodies that are affiliated with, linked to, dependent on, or subject to the administrative tutelage of institutional public sector bodies of the state and the head of the Ministry of Finance and Civil Service of the **continued rationale for the existence of public sector bodies and entities**, based on the provisions outlined in article 85.3 of law 40/2015 of October 1 of the Legal Regime of the Public Sector.



II. Different sorts of audits

These controls are carried out on beneficiaries and collaborating entities to verify the proper and accurate receipt, use, and application of subsidies

- ✓ An average of 45% of the audit controls carried out ended up proposing a repayment of one kind or another of the subsidy received.



- Administrative procedure
- Repayments and sanctions
- Subsidy fraud (Article 308 of the Criminal Code)

4. Control of Subsidies and Public Aid



Actors within the system

- Delegated comptroller's offices and territorial structure
 - ↳ Implementation of controls
- ONA
 - ↳ Coordination: planning
 - ↳ Direct implementation
 - ↳ Risk-based approach

5. Control of European Funds



II. Different sorts of audits

- Delegated comptroller's offices and territorial structure
 - ↳ Implementation of controls
- ONA
 - ↳ Coordination: planning
 - ↳ Direct implementation

Structural Funds

MRR

Thematic area	General area
Shared management	Direct management
Designation of authorities: Audit authority	Non-designation of authorities: control authority
Different beneficiaries, as applicable	The beneficiary is the member state
Payments are made on the basis of actual expenditure	Payments are made on the basis of the achievement of milestones and targets
The control function is carried out after the request for payment is submitted	The control function is carried out before the request for payment is submitted
Percentage of cofinancing	One hundred percent (100%) of expenditure is financed
Eligibility rules	Without eligibility rules

Audits of annual accounts (of each operational program)
 System audits
 Operational audits

Audits of payment requests
 System audits
 Investment audits

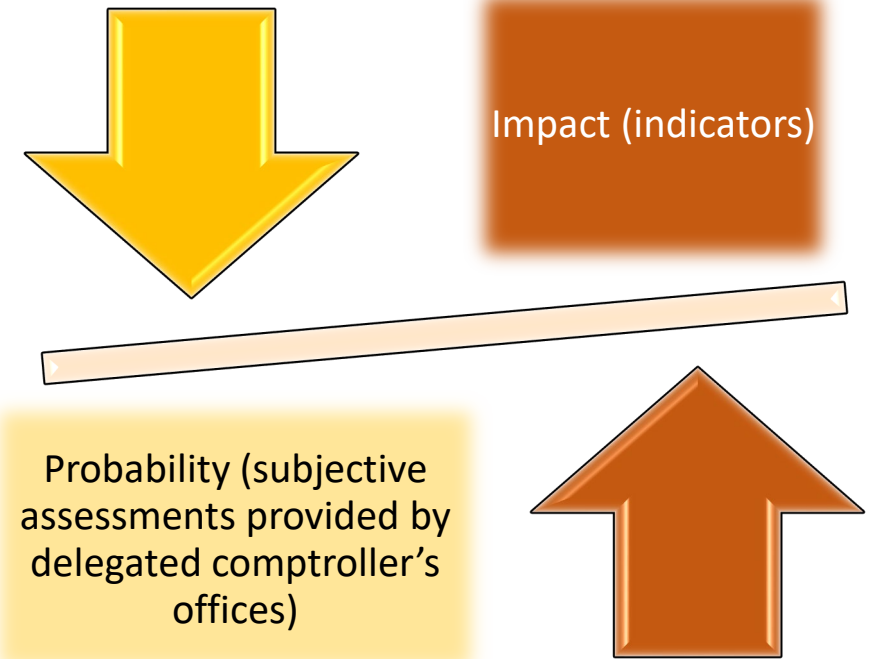
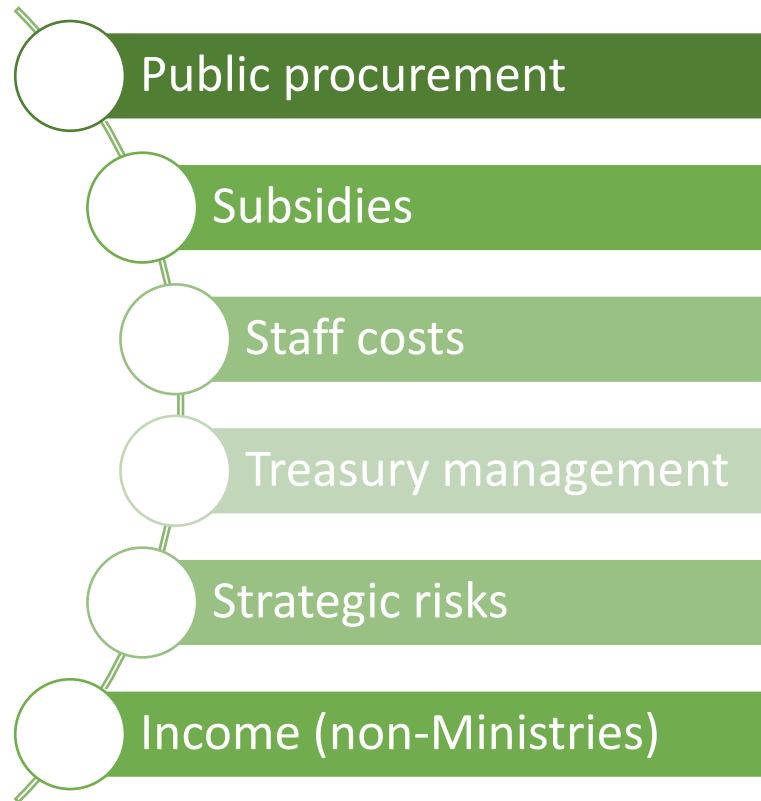


III. Risk analysis and planning in practice

1. Permanent Financial Control (PFC)

Qualitative and quantitative assessment

The following areas of public management have been identified



Legal risk: compliance with standards (except in strategic matters)

Good management risk (except in strategic matters)

Strategic risk (only in strategic matters)





III. Risk analysis and planning in practice

2. Public Audits

Risk management methodology



Preparation of the **Annual Audit and Financial Control Plan** is based on a **risk-based approach**, complemented by **regulatory obligations**.

Strategic, operational and financial risks are identified for each **type of entity**.

They are weighted **using internal and external data** (accounting and budgetary information, staffing, and subsidies).

An **overall numerical value** is assigned, broken down into five levels: **Very High, High, Moderate, Low, Very Low**.

In the case of **previously** audited entities, the professional judgement of the auditors is applied.

Priority is assigned to **larger entities** in view of their economic significance

All entities classified as **Very High Risk and High Risk** and a percentage of those considered of **Moderate Risk** are included (especially if they have not been audited in the last few audit exercises)





III. Risk analysis and planning in practice

3. Continuous Monitoring



Automated actions

QUESTIONNAIRES

- Completed by public bodies

Economic and Financial INDICATORS

- Economic and financial information available from the IGAE

Other RISK FACTORS

Qualitative factors:
 Years of operation, financing structure, managed resources, programs in which they participate.

Risk Map

A value is obtained for each entity by taking account of the key factors in all their dimensions as well as their respective weighting.

The inclusion of **high-risk values** in the assessment does **not** mean that the entity should be eliminated or merged,

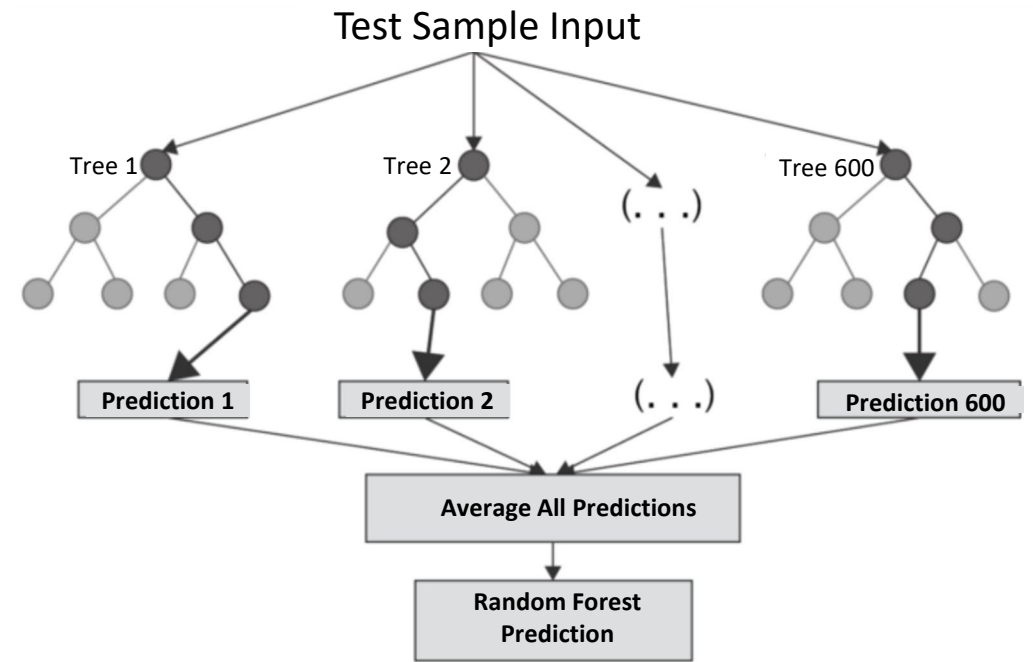
but rather that there are elements that require attention and, consequently, that there is an opportunity to carry out an in-depth, continuous monitoring audit to more fully investigate these circumstances.



4. Control of Subsidies

- Source: Data from BDNS-SNASP (<https://www.infosubvenciones.es/bdnst-rans/GE/es/index>)
- Methodology: Machine learning system (random forest supervised learning)

- ☐ Training group: process to determine the relationship between the independent variables and the dependent variable (repayment YES/NO) and assess the probability of fraud (> or < 50%)
- ☐ Test group: high levels of accuracy and precision





IV. Audit Standards used

Public Sector Audit Standards

- NIA-ES-SP: international auditing standards adapted for the Public Sector (**IGAE Resolution of October 1, 2024 on the process of adaptation and updating**) - **Prior Resolution of October 25, 2019.**
 - IGAE technical standards
 - ONA technical notes



Quality Management Standards (Section VI)

- NIGC 1-ES-SP, NIGC 2-ES-SP AND NIA-ES-SP 1220

IGAE Resolution of May 22, 2023 approving the adaptation of NIGC



VICEPRESIDENCIA
PRIMERA DEL GOBIERNO
MINISTERIO
DE HACIENDA

January 22, 2024

INTERVENCIÓN GENERAL DE LA
ADMINISTRACIÓN DEL ESTADO

NORMA TÉCNICA DEL SISTEMA DE GESTIÓN DE LA CALIDAD DE LA AUDITORÍA PÚBLICA Y DEL CONTROL FINANCIERO PERMANENTE DE LA INTERVENCIÓN GENERAL DE LA ADMINISTRACIÓN DEL ESTADO (NTSGC-IGAE)

Public Audit

Permanent financial control



V. Audit Report good practices

Reporting and Follow-up

Annual Accounting Audit Reports

Report on Internal Control Recommendations and Additional Report (IRCIA)
Not always

Other public Audit reports

OIRESCON Report
(Article 332.11 LCSP)RE

OPIS Report
(Article 3.2 RDL 3/2019)

Comprehensive reports (individual audits; horizontal audits)

Summary reports of annual audits of accounts and other public audits

General control report

To the audited entity, the Ministry of Finance and Head of Ministry Department/affiliated unit
(Action Plan)

To the Council of Ministers





Quality Management

AIM:

To provide a reasonable assurance that the **audit entity and its staff** will fulfill their **responsibilities**, will carry out **work assignments** in accordance with professional standards and the established legal and regulatory requirements, and will issue **audit reports** and reviews of financial statements as well as other monitoring and control reports within the remit of the IGAE in a manner that is appropriate to the circumstances.



1. Governance and leadership

2. Applicable ethical requirements.

3. Information and communication.

4. Start up and continuity of work.

5. Resources needed for a Quality Management System (QMS).

6. Implementation of work.