



REPUBLIC OF CROATIA
MINISTRY OF FINANCE



INTERNAL AUDIT
COMMUNITY OF PRACTICE

Relationship of Internal Audit with Financial Inspection and External Audit

mr.sc. Ljerka Crnković
Ministry of Finance, Croatia

Katančićeva 5
10000 Zagreb, Croatia
Phone: ++385 1 4591-133



Content

1. Introduction
2. Establishment of the institutions
3. Legal Framework
4. Main objectives
5. Comparison between institutions
6. Relation between institutions
7. Role of the Central Harmonisation Unit
8. Other stakeholders involved in protecting taxpayers money in Croatia
9. Conclusion



1. Introduction

- Saving taxpayers money through
 - improving system of internal control
 - ensuring legality and regularity of transactions
 - sanctioning irregularities and fraud





2. Establishment of the institutions

Internal Audit	Financial Inspection - Budget Supervision	External Audit - State Audit Office
2004	1994	1994



3. Legal Framework

Internal Audit	Financial Inspection	State Audit Office
✓ Public Internal Financial Control Law	✓ Budget Act	✓ State Audit Law
✓ Rulebook on budget user's internal audit	✓ The Budget Supervision Ordinance	✓ ISSAI standards
✓ Code of Ethics of Internal Auditors	✓ The Official Budget Supervision Inspectors' Badge Ordinance	✓ Code of Ethics of State Auditors
✓ IIA standards		



4. Main objectives

Internal Audit	Financial Inspection	State Audit Office
✓ to assess internal control system (ex post) and make recommendations	✓ to investigate major failures on the basis of petitions and complaints	✓ to determine whether the financial statements show a true financial position ✓ to examine financial transactions in terms of the legal use of the funds
✓ to advise manager to (better) achieve objectives	✓ to co-operate with judicial authorities - to penalise fraud and irregularities	✓ to assess the efficiency and effectiveness of the activities, the achievement of business objectives



5. Comparison between institutions

Description	Internal Audit	Financial Inspection	State Audit Office
Position regarding auditing/supervising subject	inside the institution	outside (exception – Ministry of Finance)	outside the institution
Work programme based on on risk assessment	yes	no	yes
Time of activity	ex ante/ex post	ex post	ex post
Reporting to	auditee head of the institution	supervised entity Ministry of Finance State Audit Office	auditee Croatian Parliament general public
Investigation and imposing sanctions	no	yes	no
Oriented to	future	past	future



6. Relation between institutions

- Internal audit
 - carries out audit on Financial inspection (internal audit unit of the Ministry of Finance)
 - Financial inspections results – one of the sources of information for internal audit work
 - obligation to give completed reports to the state auditors
- Financial inspection
 - Internal audit findings – input to the work of Financial inspection



6. Relation between institution (cont'd)

- State Audit Office
 - assessment of internal audit function through assessment of the entire internal control system of the institution
 - Internal audit's findings – input to the State Audit Office's work
 - possibility of relying on internal audit work
 - when auditing Ministry of Finance – carries out audit on Financial inspection
 - Financial Inspection's findings – input to the State Audit Office's work
 - opinion in relation to the current public internal control practice and to the achievements in implementing the Public Internal Financial Control reforms





7. Role of the Central Harmonisation Unit

- coordinates the development of the public internal financial control system
- networking
 - regular meeting with the State Audit Institution
 - mutual education



8. Other stakeholders involved in protecting taxpayers money in Croatia

- Institutions regarding safeguarding the European union funds
 - Audit Authority (external audit institution)
 - Independent division for combating irregularity and fraud (Ministry of Finance)
 - aforementioned institutions have relations with Internal Audit, Financial Inspection and State Audit Office
- Networking role of the Central harmonisation unit extended
 - regular meetings of internal auditors, Audit Authority and representatives of Central Harmonisation Unit
 - mutual educations with the Audit Authority



9. Conclusion

- Internal audit and Financial Inspection
 - two entirely different roles
(but each role complements the other)
- More similarities between Internal audit and External audit – State Audit Office
- Cooperation needed – not to work in isolation
 - avoiding overlapping of the activities (internal audit, external audit)
 - contribute to the better governance (all three activities)
- Enemies/competitors/friends ?!
 - Enemies/threat - no
 - Competitors - sometimes
 - Friends - the best option (objective)





Thank you!

e-mail: ljerka.crnkovic@mfin.hr

