

# Relationship of Internal Audit with Financial Inspection and External Audit

November 24, 2022

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# Internal audit

- ❑ Independent objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization achieve its objectives by using a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Reports to the entity's senior management.
- ❑ Two types of engagements
  - ❑ Assurance services – an independent evaluation of risk management, control, and governance processes.
  - ❑ Consulting services – advisory and related client service activities.
- ❑ Reports to the entity's senior management.
- ❑ Using a risk-based approach, audits ongoing business processes, with provision of assurance or recommendations to improve for the future.

# Financial inspection

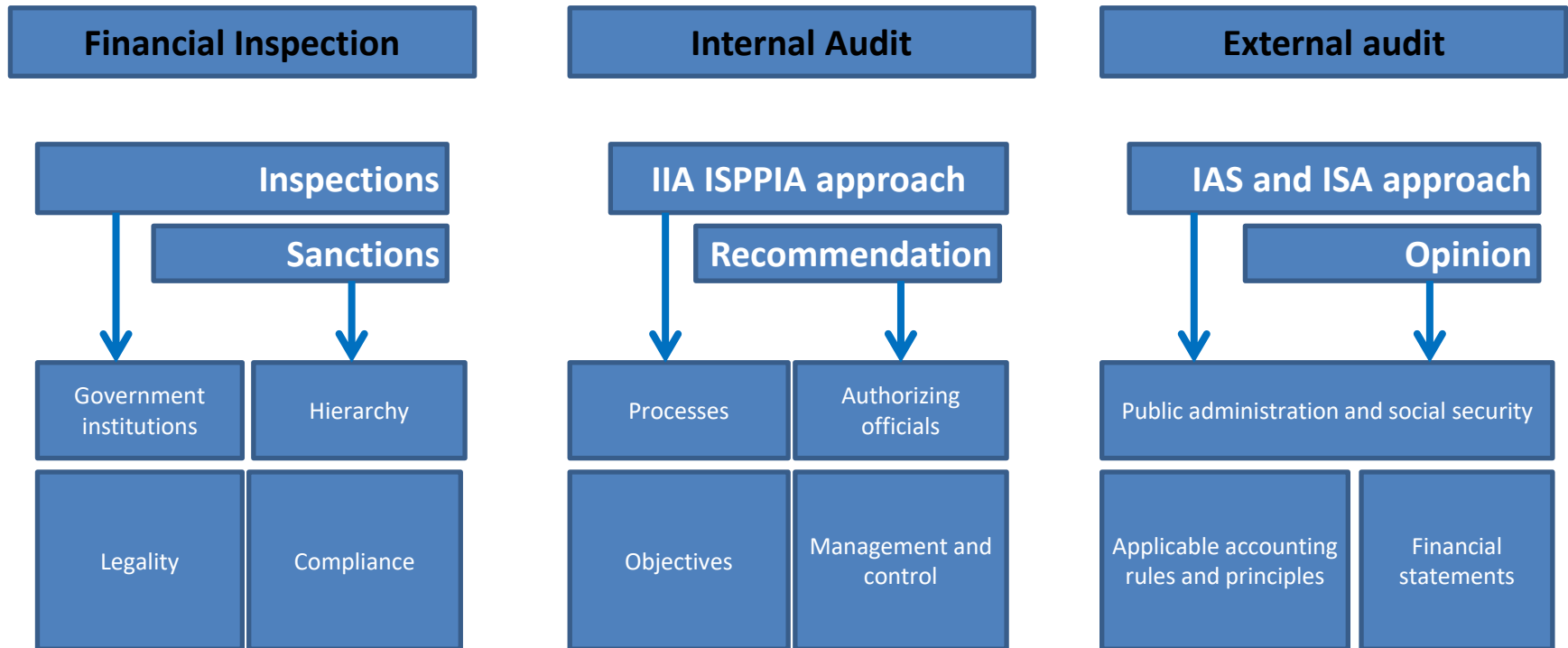
- ❑ Financial inspection is a government financial control institution that examines the extent of compliance with relevant rules and regulations governing the planning, management and use of public assets, including budgetary funds and goods.
- ❑ Reports to the Ministry of Finance or Government.
- ❑ Cyclical financial control through reviewing documents and facts of past financial operations of budget-financed institutions and government-owned companies.
- ❑ Tracking violations and levying administrative penalties.
- ❑ Financial inspection is not responsible for prosecution but presents evidence to prosecution authorities.

# Supreme Audit Institution (SAI)

- ❑ An independent government institution responsible for carrying out audits / exercising control in the public sector with respect to government revenues and expenditures in accordance with INTOSAI standards.
- ❑ Being an institution with a high level of independence, it audits / controls finances of the central government, and sometimes local governments.
- ❑ Reports to the Parliament and the public.
- ❑ Two main models
  - ❑ Audit Office (Accounts Chamber)
  - ❑ Court of Accounts
- ❑ There is a global shift from the Court of Accounts model to the Audit Office model.

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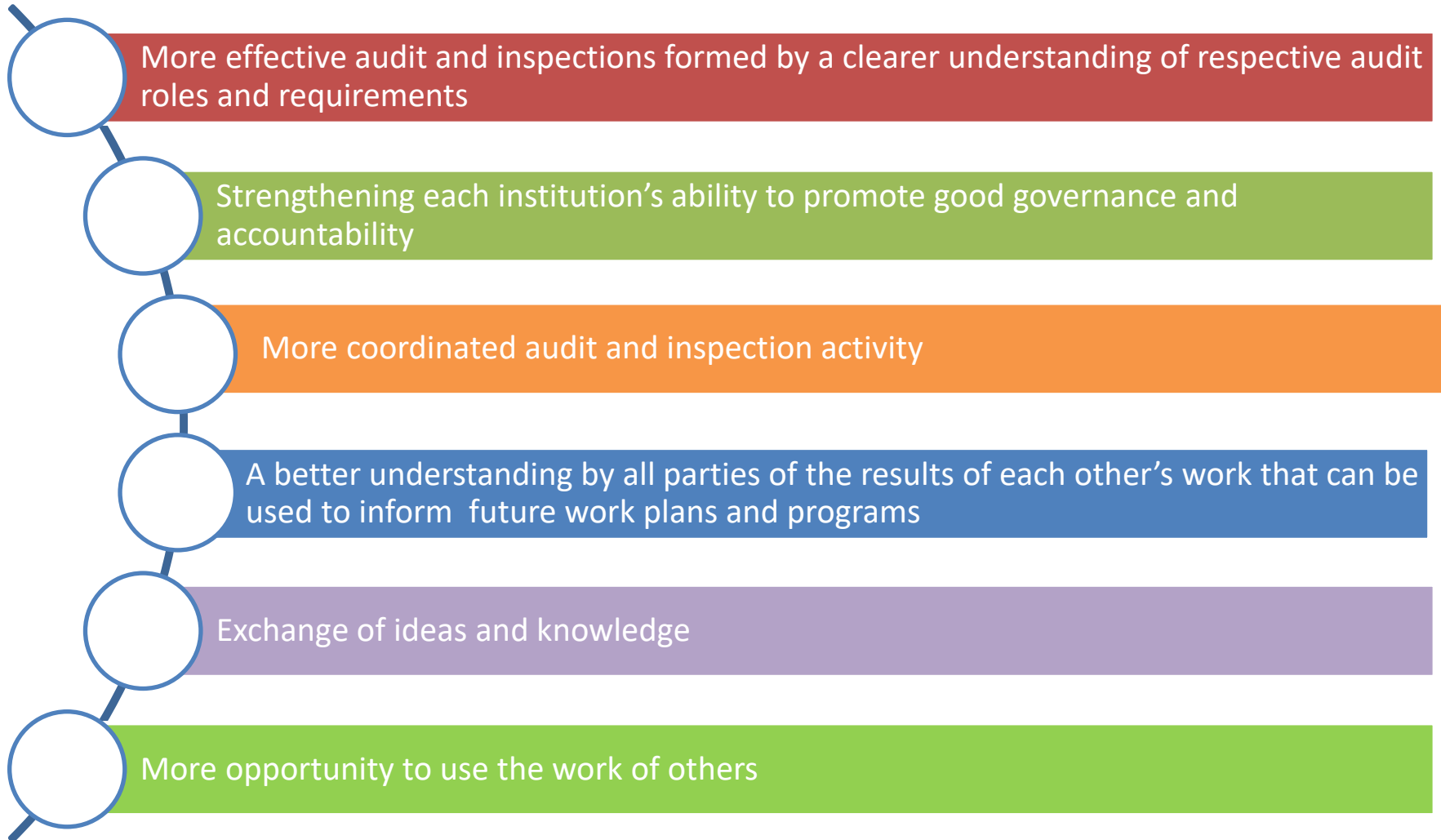
## A complementary comprehensive system



# Main features of Internal Audit, SAI and Financial Inspection institutions

Features	Internal Audit	Supreme Audit Institution	Financial Inspection
<b>Powers derive from:</b>	Head of the organization and the Audit Committee if it exists	Parliament or Judicial law	Ministry of Finance or Prime Minister
<b>Must be independent of:</b>	Line management in Ministries	Government	Head of the organization controlled
<b>Can levy penalties/fines</b>	No	Possibly, if it is a judicial institution	Yes
<b>International standards exist</b>	Yes (IIA)	Yes Issued by INTOSAI (ISSAI)	No
<b>Provides opinion on financial statements</b>	No	Yes, if carrying out external audit	No
<b>Examines financial transactions</b>	Yes	Yes	Yes
<b>Conducts ex ante reviews of systems and processes</b>	Yes	No	No
<b>Risk-based planning</b>	Yes	Yes (usually)	Possibly
<b>Results of work</b>	Assurance Recommendations for action by management	When carrying out external audit provides audit opinions (qualified and unqualified) and other reports to Parliament.  When not carrying out external audit – corrections and sanctions	Corrections and sanctions

# Why is cooperation among Internal Audit, Financial Inspection and External Audit entities necessary?



# Main areas of potential overlap



- ❑ The audit or inspection of one public sector institution by three separate controlling entities
- ❑ The review of the same financial transactions by different controlling entities
- ❑ All controlling institutions may identify cases of potential fraud and corruption
- ❑ The examination of systems of internal control
- ❑ .....



# Types of cooperation (1)

- ❑ Communication and coordination of audit strategy and audit planning (such as joint planning sessions)
- ❑ Regular meetings between auditors and financial inspectors
- ❑ Arrangements for the sharing of information (including consultation procedures)
- ❑ Communication of the results of audits/inspections to each other
- ❑ Organizing common training programs and courses
- ❑ Developing methodologies
- ❑ Sharing training materials, methodologies and audit work programs



# Types of cooperation (2)

- ❑ Granting access to audit documentation
- ❑ Sharing of staff (for example, training on the job)
- ❑ Use of certain aspects of each other's work to determine the nature, timing and extent of audit procedures to be performed
- ❑ Collaborating on certain audit procedures, such as collecting audit evidence or testing data
- ❑ Widely involving the CHU in the processes of coordination between IA, SAI and FI.



# Purpose of the Concept Paper

Provide solutions for implementation and effective functioning in the public sector:

of Internal Audit in cooperation with External Audit and Financial Inspection entities



# Framework for cooperation among audit and financial inspection entities in the public sector

- ❑ Granting access to audit documentation
- ❑ Key definitions and roles in activities of Financial Inspection, Internal Audit and Supreme Audit Institution (SAI)
- ❑ Difference between SAI roles of external auditor and external inspector (controller)
- ❑ Areas of overlap of functions
- ❑ The benefits and risks of cooperation
- ❑ A cooperation framework based on 4 Cs: **Commitment, Consultation, Communication and Confidence.**

**THANK YOU!**

