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Internal Audit and Inspection – Friends or Enemies

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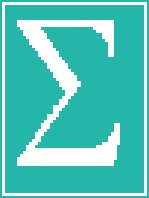
Inspection and Internal Audit

- Inspection and Internal audit have two distinct roles.
- Where they get into difficulty is when:
 - both try to compete because neither really understands the role of the other; or
 - top management does not understand the different roles.
- These situations arise as internal audit is established and replaces inspection. Many models assume an ‘instant change’ instead of a gradual changeover. Result: wrong expectations.



What are those different roles?

- Internal audit is a service to line management. It is not a checking or controlling activity. Essentially it is an activity intended to ensure that systems facilitate line management control, and reporting to higher management.
- Inspection is an investigatory activity. It is an *ex post* financial control activity, reporting usually to a central organisation (MoF) and should aim at investigating major failures and sanctioning the responsible people and organisations.



Internal audit and Inspection – friends!

- Inspection could reveal serious system weakness but also individual violations.
- Questions for internal audit:
 1. Why didn't internal audit in preparing its system risk assessment identify the system weakness?
 2. What will be the management response to the investigation? How will internal audit advise management about what to do?
 3. Will internal audit use the evidence of the investigation to look for similar weaknesses elsewhere?





Inspection vs. Internal Auditing

Inspection

- ex-post checks - mainly yes/no (law compliance)
- from outside (MoF)
- of financial activities
- focused on individuals
- aim: to detect violations and to impose sanctions
- review of the past > to assure financial and budgetary discipline

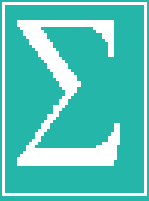
Internal Auditing

- ex-post assessment and consulting
- from inside
- of all activities
- focused on systems
- aim: to assess systems and to recommend improvements
- focus on the future > to support management



Comparing Inspection/Int. Audit where both exist

Activity	Inspection	Int. Audit
An annual programme	No	Yes
Risk analysis	No	Yes
Investigation	Yes	No
System advice to line manager	No	Yes
Refers to prosecutor etc	Yes	No
Recommending penalties	Yes	No



Problems in practice

- The change from inspection to IA is not properly managed.
- As a result inspectors want to preserve their jobs and compete for work – aim to show their effectiveness and why still needed.
- Top and line managers regard IA as another form of inspection.
- Inspection following reform is not properly focussed on its real investigation role i.e. fraud and corruption and major financial irregularities, but it tries to do other things like assessing efficiency.





Summary

- Following PIFC, inspection and internal audit perform two entirely different roles.
- Each role complements the other.
- Internal audit in particular has potentially much to learn from results of inspection.
- However, does it seek to do so or does it regard inspection as a competitor and a threat?