Internal Audit VS Inspection

Georgian case

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Difference between IA and FI

Bad Apple Theorie
Main Challenges:

- Law of Georgia “On State Internal Audit and Inspection” adopted in 2010;
- Formations of internal audit units, in certain institutions, were carried out on the basis of general inspections;
Steps for improving the situation:

- Amendments were made to the existing law:
  - Law of Georgia “On Public Internal Financial Control”
  - inspecting function was taken out
- Suggestion to review the necessity of Inspection

Separation of duties

- 12 Ministries + City Hall: 2
  - Do not have inspection function: 11
  - Do also have inspection function: 5
- Autonomous Republics: 5
  - Do not have inspection function: 5
  - Do also have inspection function: 5
- Municipalities of Adjara: 5
  - Do not have inspection function: 5
  - Do also have inspection function: 5
Separation of duties

Main Challenges:
- separate unit of internal audit could not be established;
- majority of employees were former Inspectors.

Requirement:
- separate these two functions within the unit in order to avoid conduction of both audit and inspection by the same person;
- Trainings for changing the mentality of former inspectors.
Separation of duties

- A separate structural unit is formed in internal audit unit, (for example, in the form of division), employees of which carry out only inspection;
- An employee or employees are separated in internal audit unit that have only inspecting function;
Separation of duties

- 12 Ministries + City hall: 6 (Have Separate Employees) + 2 (have a separate Division) + 5 (Do not have inspection function)
- Autonomous republics: 5 (Have Separate Employees) + 5 (have a separate Division) + 5 (Do not have inspection function)
- Municipalities of Adjara: 5 (Have Separate Employees) + 5 (have a separate Division) + 5 (Do not have inspection function)
Trainings for changing the mentality of former inspectors

- institutional memory
- qualified Financiers

- Trainings
  - International Expert
  - Local Trainers (ToT)

- Case Studies
- Pilot Audits
Present and Future

- **Today’s result:**
  EU Mission stated that 6 Internal Audit reports (selected by sampling) were in compliance with international auditing standards

- **Future Perspective:**
  - complete separation of these two institutions
Main Questions

- How to regulate functions of Inspection?
- Who should deal with this issue? (CHU, MoF, Government?)
- How IA should cooperate with Inspection?
- Where will this cooperation stated? In the Law, legal acts ..?
- How should newcomers establish this function?
- Etc.
Thank you for your attention

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