

Inspection /

Internal audit

Differences and mutual
influence

Background

INSPECTION

To inspect – to compare the item or activity in line with specified requirements and standards (Wikipedia)

Inspection has long history

Tradition from Latin countries

In ex soviet countries control system is based on revision

Revisions are performed as an periodical checking of economical-financial discipline or at the requests

Inspection is a component of Government (Ministry of Finance) centralized control system

INTERNAL AUDIT

From “audio” – to listen

Relatively recent history

Tradition from Saxon countries

Is an conditionality of EU integration

Internal auditor asses internal control in all processes, including operational ones

Internal audit in a component of internal control system

Differences

INSPECTION

1. Requests, complains, frauds and irregularities suspicion based
2. Financial transaction, budget planning and reporting, accounting
3. Financial economical system
4. Educate financial, budgetary, accountancy discipline, detect damages, frauds
5. Impose sanctions
6. Legality, compliance of
7. Stranger from outside of organization

INTERNAL AUDIT

1. Planned, ad hoc, risk based
2. Internal control, governance and risk management
3. Operational, management and financial systems
4. Assurance, consultancy of management in achieving objectives
5. Give recommendations
6. Economy, efficiency, effectiveness
7. Colleague from inside of organization

Mutual influence

- In a lot of countries internal auditors are former financial controllers \ inspectors
- Usually countries are facing with staff shortness and IA staff are created in base of Inspection staff. Clear plan is needed
- Managers are used to inspection results and prefer to create rather inspection units. Awareness and pilots could convince them and legal provisions impose creation of IA units

Friends or enemies

Arguments for friendship

- If the roles are not separated and defined, there is a fight for surviving
- If there is no inspection, internal auditor are asked to investigate individual transactions, suspicions of fraudes
- If inspection exists, internal audit could focus on operational systems, provide consultancy services and add value

Moldovan example

History

- In 2006 internal audit implementation starts inspection organization
- Implementation plan : Inspectors become internal auditor, no future for financial revision
- Effects: People reluctant to change profession, against attitude to implementation of IA
- CHU was an enemy of organization where was found

Moldovan example. History

- In 2008 CHU transfer from Revision service in MoF give decision independence and recognition
- 2008-2010 IA were performed desintralized by IA in line ministries and centralised, outsourcing from Revision Service
- 2010 was taken a decision to take out IA function from Revision Service. This help in reorientation to inspection

Moldovan example. Present and future

- Internal audit is developing in line ministries and local government
- Periodical and regular control of financial systems as part of FMC are on managerial accountability
- Revision will be modernize in inspection function, that will be focused on problematic areas and examination of requests, complains and signals of irregularities and frauds

Conclusion

- ◉ Because of regular periodical revision managers are comfortable to rely on financial revision and are not motivated to implement solid FMC system
- ◉ PIFC implementation based on decentralized control system and managerial accountability need an adjustment of revision centralized function
- ◉ Inspection is a solution for modernizing revision in parallel of IA and FMC implementation

Thank you for attention.

Question?

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