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IMPROVING THE INTERNAL AUDIT OF FINANCIAL ERRORS AND IRREGULARITIES IN BUDGET ORGANIZATIONS ON THE BASIS OF INTERNATIONAL STANDARDS

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Abstract

The thesis examines the improvement of the internal audit of financial errors and irregularities in budget organizations on the basis of international standards. The requirements of the IIA Global Internal Audit Standards, the INTOSAI Framework of Professional Pronouncements and the COSO frameworks are compared, the gaps between these requirements and national practice are identified in tabular form, and phased directions for their adaptation are proposed.

Keywords: International standards, IIA, INTOSAI, ISSAI, COSO, internal audit, financial error, irregularity, adaptation, budget organization.

Introduction

The credibility of internal audit results depends on the standards against which the work has been performed. Where no recognised standard is invoked, the conclusion of an audit rests on the authority of the auditor rather than on a verifiable methodology, and it cannot be reviewed by anyone who was not present during the engagement. For budget organizations, whose audit results may be relied upon by external bodies, by the treasury and by higher-level administrative



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authorities, the adoption of internationally recognised standards is therefore not a formality but a condition of usability.

Three bodies of standards are relevant to the internal audit of budget organizations. The IIA Global Internal Audit Standards define the professional framework of the internal audit function itself: its mandate, independence, competence, quality assurance and the conduct of engagements. The INTOSAI Framework of Professional Pronouncements, comprising INTOSAI-P principles, ISSAI standards and GUID guidance, governs public-sector auditing and provides the methodological vertical for compliance, financial and performance auditing. The COSO frameworks supply the conceptual model of internal control and enterprise risk management against which control weaknesses are diagnosed. These bodies are complementary rather than competing. The IIA standards answer the question of how the internal audit function should be organised; the ISSAI documents answer the question of what public-sector audit work must satisfy; the COSO frameworks answer the question of what the auditor is examining. An internal audit methodology for budget organizations that draws on only one of them will be incomplete: a function organised in accordance with the IIA standards but without ISSAI compliance criteria will produce conclusions that external auditors cannot use, while a methodology built solely on ISSAI documents will leave the status and independence of the function undefined. Comparison of these requirements with national practice reveals several gaps, which are summarised in Table 1 together with the corresponding directions of adaptation.



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Table 1. Gaps between international requirements and national practice, and directions of adaptation

Area	Requirement of international standards	Characteristic feature of national practice	Proposed direction of adaptation
Independence and reporting	Dual reporting: functionally to the highest governance body, administratively to management (IIA GIAS)	Reporting is typically confined to the head of the entity	Involve a higher-level body in approving the audit plan and in appointing the head of internal audit
Quality assurance	Quality assurance and improvement programme, including external assessment at least every five years	No established equivalent of periodic external assessment	Phased introduction: structured self-assessment, then peer review, then external assessment
Risk-based planning	The plan is derived from a documented risk assessment and revised when circumstances change	Annual plans are frequently reproduced from the preceding year	Mandatory documented risk assessment with defined triggers for revision of the plan
Documentation	Files understandable to an experienced auditor with no prior connection to the engagement (ISSAI 100)	Working papers often record only the amount of the deviation	Unified working-paper form stating criteria, evidence, assessment, cause and recommendation
Terminology	Error, non-compliance and fraud are distinct categories (ISA 240, ISSAI 4000)	The terms are used interchangeably in reports	Align internal audit terminology with the ISSAI categories
Competence	Continuing professional development and certification of auditors	Certification in public-sector auditing is not widespread	Develop sectoral certification and continuing education programmes



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The gaps set out in the table are of different natures and cannot be closed by the same means. The gaps in reporting and quality assurance are institutional and require amendment of the regulations governing the internal audit service. The gaps in planning, documentation and terminology are methodological and can be closed by issuing methodological documents without changes to primary legislation. The gap in competence is the slowest to close, since it depends on the development of training capacity.

Adaptation, however, cannot mean literal transposition. International standards are written for a wide range of institutional contexts and deliberately avoid prescribing procedures; they state what must be achieved rather than how. Their application in budget organizations must take account of the national budget system, the legal hierarchy of norms, the structure of state financial control and the capacity of internal audit services, which in many entities consist of a small number of staff. A requirement that a two-person service should independently construct a full methodology from primary sources will not be met in practice.

Four directions of adaptation are therefore proposed. First, the translation of standard requirements into methodological documents at sectoral level, so that a small internal audit service is not required to construct its own methodology from primary sources. Second, the alignment of internal audit terminology with ISSAI categories, so that internal and external audit results become comparable and can be aggregated. Third, the phased introduction of quality assurance, beginning with structured self-assessment, proceeding to peer review between entities of the same sector and moving towards external assessment. Fourth, the development of professional certification and continuing education in public-sector auditing. Sequencing matters as much as content. Attempting to introduce external quality assessment before working papers are kept in a form that can be assessed produces a formal exercise without effect. The rational order is therefore: unified



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documentation, then methodological guidance, then self-assessment, then external assessment. Each stage creates the material on which the next one operates.

National reform has moved consistently in this direction. Independent internal audit services have been established within state bodies, all control activities in budget organizations are registered in a unified electronic system, and the Accounts Chamber has been tasked with planning and conducting external audits on the basis of ISSAI. These developments create the institutional preconditions for the adaptation described above and reduce its cost, since the recording infrastructure required for aggregation already exists.

In conclusion, improving the internal audit of financial errors and irregularities in budget organizations on the basis of international standards requires the combined use of the IIA, INTOSAI and COSO frameworks, the identification of specific gaps between their requirements and national practice, and a phased adaptation that translates those requirements into workable methodological documents rather than transposing them literally.

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