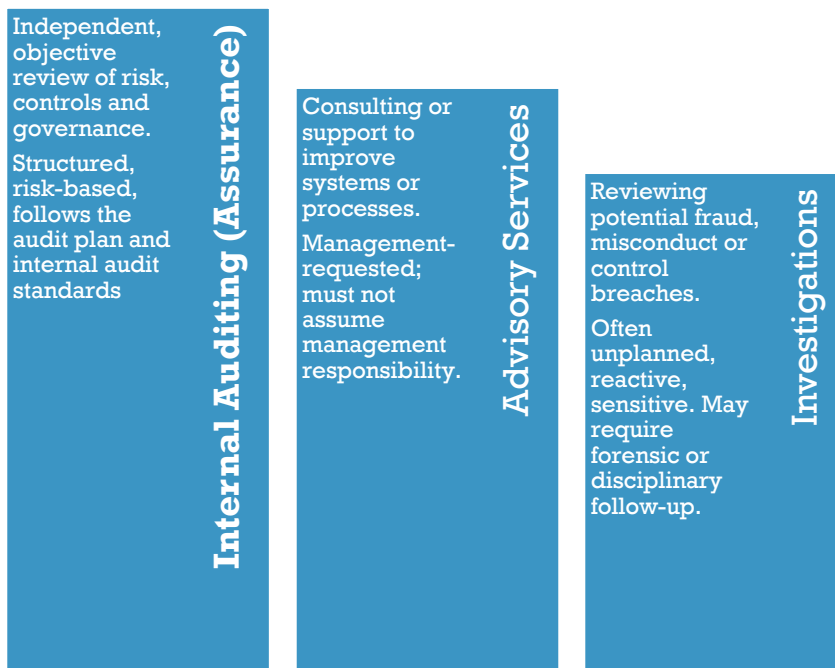


FMM 05.7 Audits versus Investigations versus Advisory activities

7.1 Introduction

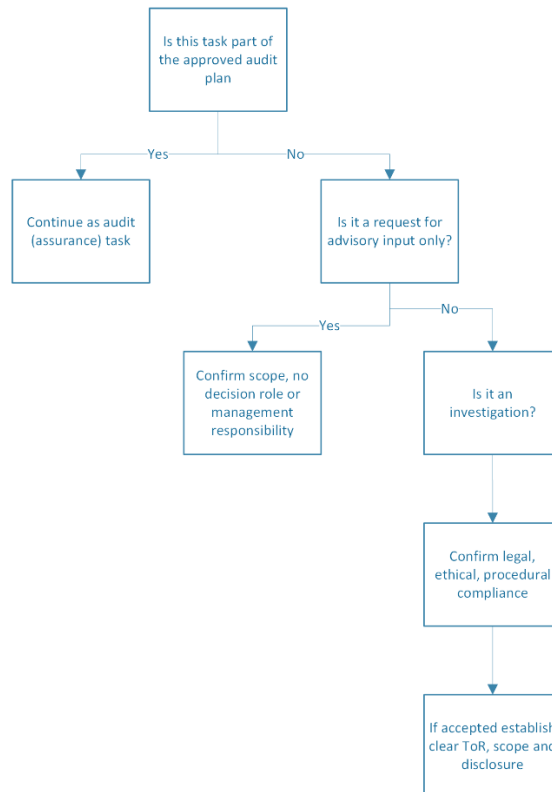
Internal audit units often face pressure to respond to a wide range of requests—from assurance audits to advisory tasks and even investigations. While internal audit plays a valuable role across all three areas, it is critical to maintain clear boundaries to protect independence, objectivity, and professional credibility.



7.2 Mandated Policy

1. Internal auditors in public entities may perform advisory or investigative work if clearly authorised and if independence is protected (INTOSAI GOV 9140).
2. Internal auditors should not undertake tasks that involve management decision-making or create conflicts of interest in future audits and therefore units must:
 - a. Clearly define permitted roles in the Internal Audit Charter.
 - b. Use a Terms of Reference (ToR) for any advisory engagement.

- c. **Avoid auditing activities the unit has recently advised on.**
- d. **Ensure staff assigned to investigations are trained, and have clear protocols.**
- e. **An agency must have a decision making framework in place that considers how to respond to requests of the internal audit unit:**



Type of Work	Allowed?	Conditions
Risk-based assurance audits	Yes	Must be core focus. Planned and structured per audit standards.
Advisory on new controls/processes	Yes	If requested by management, no decision-making by audit, no later self-review.
Support to investigations (fraud, mismanagement)	Caution	Only if permitted by charter and staff have training. Otherwise, refer to other appropriate authorities.
Advising on policy or systems design	Caution	Allowed if documented and audit will not later evaluate the same process.

Leading HR or disciplinary investigations	No	These are HR/legal functions. Internal audit must not take responsibility.
Auditing areas where recent advice was given	No	Wait at least 12 months or assign to a different auditor/team.

IPPF (International Professional Practices Framework) provide guidance on defining what role an internal audit unit can consider:

- **Standard 1000** – Internal audit must have a defined purpose, authority, and responsibility.
- **Standard 1110** – Independence must be maintained in all engagements.
- **Standard 1130.C1** – Advisory work is permitted if it does not impair independence.
- **Standard 2120.C1** – Advisory work must still address risk and control objectives.
- **Standard 2440.C1** – Results of advisory work must be properly communicated.

7.3 Findings during Internal Audits that result in Investigations

During the course of an audit, inspection, examination, auditors may encounter elements of potential theft, embezzlement and misappropriation.

3. All auditors working on the engagement with the suspected crime involved must inform their Head of the Internal Audit immediately who must then inform the departmental head.

The departmental head must decide on the course of action including the application of the agency's fraud control policy.

Internal audit will encounter several types of control failures leading to the following types of investigations –

- administrative – in a financial setting, these may represent an improperly completed form or other unintentional failure to follow the rules and regulations. with immaterial damage. When an auditor finds an administrative offence, he or she should note the offence as part of

their test of controls. Most of these errors form the focus on compliance and similar audits.

If an offence unrelated to the audit is found, the auditor should advise the Head of Internal Audit who will provide further directions.

Administrative offences found in other settings (like in an environmental regulatory compliance or regulatory audit) will require different treatment.

- civil offences – many risks deprive the government of life-time value-for-money and/or its legally mandated control over spending. When money – or the material economic equivalent value – is lost, the auditor may recommend proceeding with a civil case to recover damages. The departmental head will decide on the relative merits – including the referral to National Anti-Corruption and Fraud Squad for independent criminal investigation.

- 4. If an auditor has a reasonable belief that anyone attached to an audit committed a crime, he or she has the duty to inform his or her Head of Internal Audit and departmental head immediately.**
- 5. Like any other requirements for criminal evidence, any audit evidence obtained from private individuals and expected to be confidence shall have the protection of confidentiality and equally protected under the *Whistleblowers Act 2020*. The requirement for court orders to obtain documentation and working papers keeps the auditors independence and due diligence intact.**

7.4 Quick Checklist

1. Does the internal audit charter define rules for advisory/investigative work?
2. Has the unit refused or referred work that would compromise independence?
3. Are all advisory engagements documented with a Terms of Reference?
4. Have auditors declared and managed any role conflicts?

5. Does the internal audit plan remain focused on high-risk assurance work?

Further Information	iacd@finance.gov.pg
Version	1.0
Date Issued	30 June 2025