

The Importance of Quality Internal Auditing for Improving Management of Economic Crime

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It is not the primary duty of internal auditing to inquire about illegal activities within a company, but it can significantly contribute to improving the management of economic crime. In order to achieve this, internal auditing must be independent and professional. In a two-tier management system, the problem is that the internal auditor is subordinate to the management board and thus loses a critical element of quality audits, namely independence. In Slovenia, where such a management system is prevalent, the aforementioned problem was solved by requiring the law governing companies to mandate approval of the supervisory board on essential internal audit matters, such as the appointment, remuneration and removal of the chief audit executive, the internal audit charter and the annual and multiannual internal audit plans. At the same time, a direct line of internal audit reporting was established, not only towards the management but also towards the supervisory board. The audit committee is tasked to work, not only with the external, but also with the internal auditor. These solutions, which the authors consider appropriate, strengthen the independence of the internal auditor, and at the same time, improve the supervisory board's information resources. Subordinating internal auditing exclusively to the supervisory board or its audit committee is incompatible with the concept of a two-tier system. However, according to the authors, regulatory attention should also be paid to promoting proficiency, which is the second fundamental element of quality internal audits. The authors propose a solution whereby the company should also disclose in its annual report, information on internal auditing, including proficiency indicators of internal auditors (e.g., information on professional qualifications, experience, skills and competencies, certifications, additional training, and results of recent external quality assessments).

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