

Assessing the Internal Control System for prevention of Corruption and Conflict of Interest with focus on investigative audits

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Introduction

Christoph Deimel

- In internal audit since 2014
- Team leader in internal audit
- Head of Unit Fraud and Corruption Prevention since 2016
- ETINED delegate since 2018 (Council of Europe)
- Deputy Audit Executive of the Federal Ministry of Women, Science and Research

Agenda

- Pillars of corruption prevention with focus on Internal Control Systems and Compliance Management Systems
- Investigative audits with focus on assessing the Internal Control System

Three line of Defense model

minister

senior management

1st Line:
management controls
Internal control system

2nd Line:
Risk management
Compliance
security systems
financial control

3rd Line:
Internal audit

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Role of Internal Control Systems in relation to Compliance

- Preventive: Stop irregularities before they occur
- Repressive:
 - Detective: Identify issues rapidly if they happen
 - Corrective: Enable quick and effective response
- Key objective: Safeguard integrity and foster ethical behavior

CMS – What is this?

- A compliance management system (CMS) is the set of tools and mechanisms, that develop and implement the principles and values of an organization and enforce them in day-to-day business. It is designed to ensure compliance with legal and ethical rules.
- Possible consequences of non-compliance should be reduced:
 - Criminal liability, fines, claims for damages, disciplinary consequences or dismissal, loss of reputation

Pillars of compliance management systems



prevention



education



Cooperation
National and
international



Repression
Investigative
audits

Awareness
raising



Compliance and Investigative audits

2 Types of „compliance“ audit

- Compliance Audit
 - Compliance basically OK
 - Standard IA process
- Investigative Audit
 - Gross compliance deficits - relevant under civil service law and/or criminal law (fraud, corruption, abuse of office, etc)
 - Own compliance process

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Reason for an investigative audit

- Findings of a standard audit
- Reports from superiors
- Specific information from employees
- Anonymous reports by the Whistleblower Protection Act reporting centre

Standard internal audit process



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Audit process for (event-driven) compliance audits



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Assessment of internal control systems within the scope of investigative audits

- Objective:
 - Identify control weaknesses enabling or failing to prevent irregularities
- Approach:
 - Focused review of relevant processes/controls linked to allegations
 - Trace breakdowns or circumventions in the control environment

Assessment of internal control systems within the scope of investigative audits

- Key Steps:
 - Map process and controls relevant to the incident
 - Test operating effectiveness (walkthroughs, re-performance)
 - Analyze control overrides and management involvement
 - Document and quantify control failures' impact

Investigative audits in the central office

- Case „Head of department“
 - Initial Trigger: Anonymous whistleblowing highlighting problems in the department
 - Further Investigation: Standardised audit revealed other inconsistencies relating to this department



Investigative audits in the central office

- Case „Head of department“ – Areas of concern
 - Human resources management practices
 - Authorisation and reimbursement procedures for business travel and other expenses
 - Compliance with internal policies and legal requirements



Investigative audits in the central office

- Case „Head of department“ – Audit response
 - **Immediate risk assessment (ICS)**
 - Detailed review of:
 - **Staff recruitment (ICS)**
 - **Travel requests and expense reports (ICS)**
- Interviews with all employees in the department



Investigative audits in the central office

- Case „order placement“
 - Internal report from an employee to the Cabinet and the Secretary-General
 - Request of the Cabinet and the Secretary-General based on that internal report



Investigative audits in the central office

- Case „order placement“ – audit response
 - **Review of the procurement process based on documents in the ELAK (Electronic file system of the Austrian Federal Administration) (ICS)**
 - **Review of the authorisation process based on documents in the ELAK (ICS)**
 - Project evaluation



Investigative audits in 20 research institutes at higher technical schools

- initial trigger: Findings from a standardised audit in a higher technical (VET) school
- Scope: all 20 research institutes at higher technical schools



Investigative audits in 20 research institutes at higher technical schools

- Audit Response:
- compliance audit on the guidelines specifically applicable to the research institutes
- Checking all invoices and time records
- **Audit of the entire invoicing and billing process (assessment of the internal control system)**

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Investigative audits in a subordinate office

- Initial trigger: Anonymous report to the Chief Audit Executive
 - Allegation: Non-reduction of flextime credits
- Audit Response:
 - **assessment of the internal control system**
 - **Audit focus: Time recording, Access controls**

Investigative audit of the appointment of a rector at a university

- Initial trigger: Criminal complaint against senior management of the ministry
 - Already reported by third parties to the public prosecutor's office due to political reasons
- Audit Response:
 - **Audit of the appointment process (ICS)**
 - Analysis of the expert opinion on which the criminal complaint is based

Assessment Methodology

- Risk Assessment: Identify high-risk processes, functions, and positions
- Walkthroughs: Review actual practices vs. documented procedures
- Testing Controls: Sample transaction reviews, interviews, surprise audits
- Culture Assessment: Employee surveys and ethical climate analysis
- Reporting: Findings, recommendations, and management feedback

Common Weaknesses & Red Flags based on our findings

- Inadequate segregation of duties
- Missing or unclear policies
- Weak management oversight
- Lack of awareness/training
- Ignored or underutilized whistleblower channels
- Inconsistent disciplinary actions
- Overridden controls

Recommendations based on our findings

- Review and update policies annually
- Strengthen segregation of duties, especially in high-risk areas
- Systematically enforce periodic conflict of interest disclosures
- Increase management accountability for compliance
- Invest in data analytics for real-time monitoring
- Promote open communication channels for reporting concerns

Thank you
for your attention!