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EVALUATION CRITERIA FOR INTERNAL CONTROL AND INTERNAL AUDIT IN THE PUBLIC SECTOR: DIFFERENCES, COMPLEMENTARITIES AND THE NEED FOR A COMMON MEASUREMENT FRAMEWORK

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Abstract: Internal control (IC) and internal audit (IA) are two important components of public governance, including public internal financial control (PIFC), but they are assessed through different criteria, instruments and methodological ways. This paper aims to examine the evaluation frameworks applied to IC and IA in the public sector, with a particular focus on the Republic of Moldova, and to identify the need for a common measurement approach able to better capture their functional inter-dependence. The study is based on a qualitative analysis of the national regulatory framework, including the Law on public internal financial control, national standards and reporting regulations, as well as on internationally recognised frameworks such as COSO, PEFA, SIGMA, ISO 9001, CAF and the Three Lines Model. The analysis is complemented by empirical evidence from the author's previous research on the success factors of IA, based on a questionnaire survey of 47 internal audit professionals. The findings show that IC evaluation remains largely oriented towards compliance with standards and annual self-assessment process, while IA evaluation combines compliance, performance and value-added dimensions, including independence, professional capacity, implementation of recommendations and external quality assessment. The results also confirm that IA effectiveness is strongly associated with independence, adequate capacity, professional development, time management and managerial support. The paper concludes that the diversity of existing frameworks should not be viewed as a weakness, but as a basis for developing a common measurement language.

Keywords: internal control, internal audit, public governance, evaluation criteria

JEL Classification: M42, M48

1. Introduction

Public sector institutions are expected to use public resources legally, efficiently, transparently and accountably. In this context, IC and IA are two essential pillars of public governance. IC provides the managerial framework through which objectives are achieved, risks are managed and activities are kept under control, at the same time IA offers independent assurance on the effectiveness of governance, risk management and control processes. Although they have distinct roles, the two functions are closely connected: sound IC supports effective IA and effective IA contributes to the improvement of IC.

In Republic of Moldova, IC and IA have developed within the broader reform of PIFC, based on the Law on PIFC and the regulatory framework issued by Ministry of Finance. IC is assessed mainly through annual self-assessment and compliance with National Internal Control Standards, while IA is evaluated through a wider set of criteria, including compliance with professional standards, independence, audit planning, implementation of recommendations, professional capacity and external quality assessment.

These differences are justified by the distinct nature of the two functions, but they also make it more difficult to assess their real inter-dependence. International frameworks such as COSO, PEFA, SIGMA, ISO 9001, CAF and the Three Lines Model provide guidance, but they use different criteria, indicators and perspectives. As a result, the same institutional reality may be measured through different lenses.

This paper examines the evaluation criteria applied to IC and IA in the public sector, with a focus on the Republic of Moldova and analyses their differences and complementarities. It also integrates empirical findings from previous research on IA success factors in order to show how independence, professional capacity, managerial support and audit results contribute to the effectiveness of IA and, indirectly, to the maturity of IC. The paper states that the diversity of existing frameworks should be used as a basis for developing a common measurement language capable of better capturing the relationship between IC and IA and supporting evidence-based public governance reform.

2. National and international frameworks for evaluation of IC and IA

IC and IA are based on a solid regulatory framework, both at national and international level. In Republic of Moldova, the legal foundation is established by Law no.229/2010 on PIFC, which explicitly defines the concepts of IC and IA, the responsibilities of the heads of public entities and the centralised coordination mechanisms of this field [Law no.229, 2010].

Subsequently, the secondary regulatory framework details the standards and evaluation procedures for both IC and IA. For IC, Ministry of Finance (MoF) developed the National Internal Control Standards (NICS), which a set of standards inspired by the COSO model. In the same way, for IA, the National Internal Audit Standards (NIAS) were developed, aligned with the professional practice issued by the Institute of Internal Auditors. At the same time, a set of orders of Ministry of Finance establish the specific evaluation and reporting instruments. Two key documents are relevant in the context of evaluating IC and IA:

a) MoF Order no.4/2019, which approves the Regulation on self-assessment, reporting of internal control system and issuance of managerial accountability statement. This act introduces a uniform process of annual IC self-assessment in public entities, based on a questionnaire in which the degree of implementation of each NICS is assessed. The results of the self-assessment form the basis for issuing the managerial accountability statement signed by the head of the entity, declaring the level of compliance of IC system. In essence, this order establishes the criteria for evaluating IC at entity level by measuring the implementation of standards and the assumption of management responsibility for these results;
b) MoF Order no.176/2019, which approves the Regulation on reporting internal audit activity in public sector. According to it, each IA unit prepares an annual activity report containing key indicators regarding the number of planned and completed IA engagements, findings and recommendations issued, the degree of implementation of recommendations, audit resources, etc. Through this regulation, criteria for evaluating the IA function are established, from coverage of the audit universe to the effectiveness of audit recommendations.

At international level, several reference frameworks guide the evaluation of IC and IA systems in the public sector:

a) the COSO integrated internal control framework represents a global reference point. COSO 2013 defines five interdependent components of IC (control environment, risk management, control activities, information and communication, monitoring and evaluation) and 17 related principles, which, if present and functioning effectively, indicate a robust IC system [COSO, 2013]. The evaluation of IC effectiveness according to COSO is carried out by verifying that each of the five components is present and functioning and that the identified deficiencies do not undermine the achievement of entity objectives. In practice, many Governments, including of Republic of Moldova, have adopted COSO model as basis for NICS, so that IC evaluation is carried out through the prism of compliance with these components and principles;
b) PEFA is an international framework for evaluating PFM, often used for national diagnostics. PEFA includes specific indicators related to IC and IA. For example, indicator PI-25 evaluates

internal controls (segregation of duties, controls over expenditure commitments, compliance with payment rules), while PI-26 evaluates IA (coverage of the IA function, nature and standards of audits performed, reporting and monitoring of results, management response to recommendations) [www.pefa.org]. PEFA scores are awarded on a scale from D to A, based on quantitative and qualitative criteria;

c) SIGMA is a joint OECD/EU programme and has developed the Principles of Public Administration, which include requirements and principles for IC and IA as part of the PFM area. For states such as Republic of Moldova, SIGMA periodically conducts assessments and issues recommendations regarding alignment with these principles [SIGMA / OECD, 2023]. One example is Principle 8 in the PFM area, which provides that "the operational framework for internal audit reflects international standards, and its application by budget organisations is consistent with the legislation governing public administration and, more generally, public financial management". SIGMA monitors aspects such as the existence of a PIFC strategy, the functionality of Central Harmonization Unit, the degree of implementation of NICS and NIAS, external quality assessments of IA, etc.;
d) ISO 9001 is a standard for quality management systems and emphasises the process approach, risk-based thinking and the PDCA cycle (Plan-Do-Check-Act) [www.iso.org]. For the public sector, ISO 9001 provides an operational discipline that complements the IC system: it defines processes, responsibilities, indicators, quality audits (distinct from IA), treatment of nonconformities and documented corrective actions, as well as management review. Its implementation creates traceability and comparable data, useful both for IC self-assessment and for risk-based planning and follow-up of recommendations in IA;
e) CAF is a European self-assessment tool for the performance of public institutions, which includes criteria related to internal processes and results. In our context, CAF is relevant because it incorporates elements of internal management, including internal control, at the level of functioning criteria and key results in terms of stakeholder satisfaction and performance. Through the application of CAF, an institution can systematically assess both its processes, including the existence of effective IC in the conduct of activities, and its results, for example, the degree of trust of citizens or beneficiaries, which may be influenced by the quality of IC and IA. The Customs Service is one example of initial application in this regard;
f) Three Lines Model, developed by the Institute of Internal Auditors, is a governance framework that explains how different roles within an organisation contribute to the achievement of objectives, management of risks and effectiveness of control. It distinguishes between the (i) first line, represented by operational management, which owns processes and manages risks in day-to-day activities; (ii) second line, formed by functions that provide support, coordination, monitoring and oversight in areas such as risk management, compliance or internal control; and (iii) third line, represented by IA, which provides independent assurance on the adequacy and effectiveness of governance, risk management and control processes. The model also places governing bodies and senior management above these lines, with overall responsibility for setting direction, overseeing performance and ensuring that different roles work in a coordinated and clear manner.

In summary, the regulatory and policy framework provides a dual reference point for the evaluation of IC and IA, criteria of compliance with the established standards and rules, as well as criteria of performance and effectiveness. Although IC and IA are part of the same PIFC system, the methods and criteria used to assess their performance differ significantly, due to the distinct roles of each function. Thus, the following table summarises the main evaluation criteria / indicators for IC compared with those for IA.

Table 1. Comparison of evaluation criteria for IC and IA

Evaluated aspect	IC	IA
Reference	Compliance with NICS and their implementation.	Compliance with NIAS and their implementation.
Main method	Annual self-assessment by management, based on a questionnaire. Result: an internal score or declared level of compliance in the managerial accountability statement.	Continuous evaluation through performance indicators, annual self-assessment and periodic external assessments. Aspects monitored include: degree of implementation of the audit plan, compliance with standards, effectiveness of recommendations, etc.
Quantitative indicators	Examples: - percentage of NICS fully implemented; - number of identified control deficiencies; - declared level of compliance; - number of entities in the system with "compliant" IC.	Examples: - number of planned audit engagements; - number of recommendations issued; - number of recommendations accepted by management; - staffing rate of the internal audit unit.
Qualitative indicators	- existence and quality of key IC documents (code of ethics, risk register, internal procedures); - control culture, institutional integrity, qualitative findings regarding weaknesses.	- approved and compliant IA charter; - risk-based action plan; - response of audited units; - independence of internal audit; - absence of conflicts of interest.
Responsible	The management of the public entity self-assesses its own IC system and signs the managerial accountability statement. The IA unit issues an opinion for each IC component.	The head of the internal audit unit self-assesses and reports IA performance. Independent assessment teams evaluate IA activity from an external perspective.

Source: produced by the authors.

Several differences in the approach to evaluating the two functions appear from the table above.

Nature and purpose: IC evaluation is oriented towards compliance: it verifies whether the management control system corresponds to predefined standards and whether the minimum requirements necessary for issuing the managerial accountability statement are met. By contrast, IA evaluation places emphasis on performance and added value: not only whether IA complies with professional standards, but also how efficiently and effectively it identifies risks, issues useful recommendations and positively influences the governance of the entity.

Data collection method: for IC, the basic instrument is the annual self-reporting by each entity, through the report and the statement, which implies a degree of subjectivity and the need for honest self-control on the part of management. In fact, MoF has observed cases of over-estimation of the stated level of compliance by some entities, compared with the evidence from the self-assessment reports, a phenomenon that required reminding managers of their responsibility to correctly declare the state of IC [Ministry of Finance, 2025; Ministry of Finance, 2024]. For IA, performance data are collected both through self-reporting, in the form of activity reports, and through objective measurements, such as external quality assessment, which gives greater objectivity to the evaluation of IA.

Quantitative versus qualitative criteria: IC evaluation predominantly uses simple quantitative criteria, such as the compliance score or the number of implemented standards, which aggregate a complex situation into a single category: non-compliant, partially compliant or compliant. This facilitates comparability between entities and over time, but it may hide nuances; for example, two "partially compliant" entities may have very different situations. IA evaluation uses a combination of quantitative indicators and qualitative judgements. For example, the rate of implementation of recommendations is an important quantitative indicator, but it also needs to be interpreted qualitatively, if implemented recommendations were significant or only formal. Likewise, the extent

to which IA addresses governance issues or key controls is a qualitative judgement referred in evaluations. It has also been found that IA still does not pay sufficient attention to the systematic evaluation of IC, focusing more on compliance or financial audits [World Bank, 2022].
Evaluation interval and cycle: IC, as an integral part of current management processes, is assessed continuously, as managers monitor it on a daily basis, but formally once a year for reporting purposes. IA, in addition to the continuous monitoring of its own activities, goes through a periodic external assessment cycle, at least once every five years, for quality certification. This difference means that feedback on IC is more frequent but internal, whereas feedback on IA also includes external perspectives, but less frequently.

3. Complementarity of the two functions and impact between them

A specific element of the relationship between the two is that IA contributes directly to the evaluation of IC. International standards provide that IA should assess the effectiveness of internal controls and governance. In national practice, this is reflected in the opinion that internal auditors include, where applicable, in the annual IC reports of institutions. In 2024, 69% of central public authorities and 40% of second-level local public authorities included an IA opinion in their IC report, an opinion which, as a rule, confirmed the information provided by management [Ministry of Finance, 2025]. Moreover, internal auditors reported specific gaps in the implementation of certain NICS, related to integrity and ethics, risks and performance, as well as processes. For example, it was found that institutional integrity is not sufficiently supported and ensured, with management showing limited concern for the ethical climate, anti-fraud measures or delegation of responsibilities. These qualitative findings resulting from IA are, in themselves, criteria for evaluating IC, highlighting the areas where it requires improvement. Therefore, IA acts as an independent mechanism for evaluating IC, complementary to managerial self-assessment.
Thus, the evaluation of IC performance focuses on the question: *"Are internal control processes designed and applied in accordance with standard requirements?"*, while the evaluation of IA performance asks: *"To what extent does internal audit activity provide added value and independent assurance regarding those processes and controls?"*. The two types of evaluation complement each other: one establishes the level of confidence in management control system, while the other determines how well the independent verification mechanism of that system functions. This complementarity becomes even more evident when examining the correlations between the characteristics of IA and its effectiveness, as well as the factors that ensure the success of both functions, aspects addressed in the following section.
The specialised literature and recent research highlight close links between the qualitative characteristics of IA, such as objectivity, independence and organisational support, and the effectiveness of both IA and IC system. We also integrate perceptions of professionals of critical success factors in IA and, by extension, in the related control process. The research on perceptions of IA success factors focused on identifying the factors considered decisive for the success of IA. Although IA operates within a uniform regulatory framework, its success in the sense of positive impact and recognition within the entity may vary significantly from one organisation to another. Understanding the factors that support this success is crucial for formulating measures to strengthen the IA function.
The analysis started from a coherent matrix of variables covering both the "soft" factors of the IA function: independence, objectivity, managerial support, continuous education, and the "hard" factors: the size of IA unit, allocation of time resources, degree of implementation of the audit plan, implementation of recommendations and audit coverage in subordinate entities. The design of the questionnaire using a Likert scale, from 1 to 5, made it possible to correlate perceptions with operational results, reducing the risk of confusing "attitudes" with actual performance. Thus, the questionnaire comprised two sections and was distributed through Google Forms, while responses were also collected in paper format, resulting in a total of 47 observations.
The strongest relationship observed concerns the dimension of functional independence: in entities where internal auditors reported interference or limitations of access, the capacity to carry out sensitive audit engagements decreases sharply, with an almost perfect correlation (r – 0.97) between

the reporting of interference and the difficulty of conducting engagements for which the auditors had direct responsibility. This magnitude suggests a structural relationship, not merely a circumstantial one: when access, objectivity and positioning are compromised, IA is no longer the "third line", but a fragile extension of the first / second line and the result is an assurance deficit precisely where the risk is higher. At the opposite end, where independence is perceived as high, better completion of the annual audit plan and prompt implementation of recommendations are observed at the same time.

Time management appears as a "determinant" of performance. The variable concerning the distribution of time resources across engagements is strongly associated both with the timely implementation of recommendations and with the degree of achievement of annual audit plan (r – 0.90 in both cases). In practice, where direct audit time is effectively planned / allocated, the conduct of audit engagements is realistic, the timeframes are appropriate to complexity and assessed risks, and effort is efficiently transformed into results: timely reports, corrective actions monitored and closed and a lower occurrence of deficiencies.

Regarding capacity, the data indicate a "professionalization chain": the number of approved positions is closely linked to the positions actually filled (r – 0.94), which clearly suggests that public entities that realistically design their IA units also succeed in staffing them. The size of the unit is associated with professional development, namely achievement of the minimum threshold of 40 hours/year (r – 0.93), and with audit coverage in subordinate entities. In turn, continuous professional development correlates with a better distribution of time and this is also reflected in the outcome indicators, namely timely implementation and achievement of the plan. From an operational point of view, larger teams are better able to transform acquired competencies into audit results.

A less obvious, but important element for governance is the mixing of roles. Where internal auditors are involved in operational tasks, belonging to the first or second line, the need for training increases (r – 0.90) and, in practice, the time available for actual audit activities decreases. Beyond the opportunity cost, such involvement undermines objectivity and independence and creates role conflicts. The results explicitly support the need for organisational boundaries: a clear audit charter, prohibition of participation in potentially auditable activities, reporting to senior management, and full access to data, locations and people.

Managerial support functions as a transversal lever: where management allocates resources, ensures the necessary access and requires formal responses and action plans, accountability indicators are strong, with approximately 80% of respondents confirming formal responses and plans. However, the implementation rate remains variable across entities, which indicates that support must be institutionalised as a managerial routine, through regular recommendation follow-up meetings, an electronic register of recommendations, evidence-based criteria for closing recommendations and indicators regarding the recurrence of deficiencies. In the absence of such mechanisms, support remains declarative and its effect on audit results is inconsistent.

Comparisons based on the experience of heads of IA units support the hypothesis regarding length of service in leadership: entities with heads having more than 10 years of experience report better timely implementation and higher satisfaction of audited units. A plausible interpretation is that experienced leaders reduce process uncertainty, through clear audit objectives, realistic deadlines and stronger discussions with management, and improve the quality of the audit dialogue, which accelerates both the acceptance and implementation of recommendations. A similar effect is observed when segmenting by the size of the IA unit: units with more than three audit positions report higher perceived independence, more certifications within the team and better implementation.

A useful benchmark is provided by the multiple correlations between capacity, education and outcome variables, with "r" ranging from 0.87 to 0.93 for correlated pairs such as unit size ↔ timely implementation, or professional development ↔ achievement of the plan. These relationships cannot prove causality in the strict sense between the variables, but they at least create a coherent equation:

Independence + Capacity + Education + Managerial support → Timely implementation

From the perspective of IC versus IA, the data describe a virtuous cycle when the levers are aligned. An independent and professional IA function quickly identifies control gaps, such as those related to integrity, process documentation and risk management, while close and strong follow-up of

recommendations reduces the appearance of errors. On the other hand, a mature control system relieves audit from compliance checks and allows it to move upward on the hierarchy of strategic added value.
However, the inherent limitations of this study remain: 47 responses reduce the power of inference and some of the variables are self-reported, with a potential for optimism or defensiveness. The diversity of the institutions represented also adds contextual heterogeneity that is not fully absorbed by the descriptive analysis. Therefore, a prudent interpretation requires cross-checking with annual data series from reports and, ideally, repeating the survey after policy interventions in this field.
Based on this evidence, the high-return directions are clear and operational / functional. Strengthening organisational independence immediately increases the capacity to address sensitive engagements. Targeted professionalization has a multiplier effect when the team reaches a critical size. Time governance transforms effort into timely delivery.
Thus, when IA functions well, it acts as a catalyst for improving IC. Its recommendations strengthen weak areas of control, while monitoring their implementation ensures a cycle of continuous organisational development. On the other hand, a sound IC system creates the conditions for IA to focus its efforts on more strategic matters and to have a greater impact. Therefore, there is a positive interdependence between effective IC and IA.
Thus, the multitude of frameworks and indicators, from NICS and NIAS, the COSO model and the IIA/IPPF framework, the PEFA and SIGMA assessment criteria and the CAF framework, to which we may additionally refer MoF Order no.4/2019 on IC reporting and MoF Order no.176/2019 on IA reporting, makes it difficult to capture the real dependence between IA and IC. Differences in purpose, method, and time horizon may generate fragile or even misleading correlations. In the absence of a "single source of reference" for data and a common taxonomy, the same institutional reality ends up being measured with different rulers, while the influence of IA on IC becomes weak in the methodological wave.
However, the diversity of frameworks and indicators is an asset, not an obstacle. We will transform it into a common measurement language through: correspondence between standards and indicators, harmonised definitions, units of measurement and reporting periods, normalisation of indicators to a comparable scale, comparability with IC self-assessment and scores provided by external partners, as well as the establishment of common indicators that directly link IA to IC. There will be identified audit variables and traced them to control variables, so that each finding has a clear counterpart within the IC system. The aim is to transform the diversity of "rulers" into a single analytical scale and to obtain real correlations and plausible arguments showing how independent and competent IA accelerates IC maturity.

4. Conclusion and recommendations

The following specific conclusions and recommendations arise from the study.
Conclusions:
1. IC and IA are evaluated through different but complementary lenses. IC evaluation is primarily oriented towards the implementation of standards, managerial self-assessment and formal compliance, while IA evaluation combines compliance with professional standards, performance, independence, capacity and the value added by audit results.
2. The current evaluation structure reflects the distinct roles of the two functions. IC belongs to management and is embedded in day-to-day processes, but IA provides independent assurance on governance, risk management and control. Therefore, identical evaluation criteria would not be appropriate; however, the criteria should remain connected.
3. The main weakness is not the absence of evaluation frameworks, but their fragmentation. National and international frameworks: NICS, NIAS, COSO, PEFA, SIGMA, CAF, ISO 9001, and the national reporting regulations, provide a lot of evaluation references, but they use different concepts, indicators and timing. This makes difficult to measure the actual contribution of IA to IC maturity.
4. IC self-assessment remains vulnerable to formalism and overestimation. The reliance on annual self-reporting by management facilitates system-wide monitoring, but it also creates a risk that

declared compliance may exceed the real functionality of controls. This confirms the need for stronger evidence requirements and independent validation.
5. IA already plays a direct role in the evaluation of IC, but this role is not yet fully exploited. The inclusion of IA opinions in annual IC reports shows that IA can complement managerial self-assessment with independent judgement. However, this contribution should be further strengthened and more systematically linked to the assessment of IC maturity.
6. The effectiveness of IA depends on several interconnected factors. The empirical findings show that independence, adequate capacity, professional development, time management and managerial support are strongly associated with better audit results. These factors should therefore be treated not only as characteristics of IA, but also as enabling conditions for stronger IC.
7. A common measurement language is necessary to move from parallel evaluations to integrated analysis. Without common definitions, comparable indicators and linkages between audit variables and control variables, the relationship between IA and IC remains difficult to demonstrate empirically. Developing such a language would improve comparability, support evidence-based reforms and make the impact of IA on IC more visible.
The following recommendations are drafted based on the results of the study:
1. Develop a common measurement framework for IC and IA. A correspondence should be established between NICS, NIAS, COSO components, PEFA and SIGMA indicators and the national reporting instruments for IC and IA. This would allow the use of harmonised definitions, comparable indicators and clear links between IA results and IC maturity.
2. Strengthen the evidence basis of IC self-assessment. Annual IC self-assessment should be supported by verifiable evidence, not only by formal declarations. Key answers should be substantiated through risk registers, process maps, control matrices, delegation records, monitoring reports and other relevant documents, in order to reduce the risk of over-estimation and distinguish formal compliance from actual functionality.
3. Integrate IA opinions more systematically into the evaluation of IC.
IA opinions included in annual IC reports should be used more actively as an independent source of validation, especially for areas such as risk management, control activities, monitoring, integrity and process documentation. Significant differences between management self-assessment and IA findings should be clearly identified and followed up.
4. Move from formal compliance indicators to functionality indicators. In addition to verifying whether procedures, registers, or documents exist, IC evaluation should assess whether these instruments are actually used, regularly updated and effective in reducing risks and supporting the achievement of objectives.
5. Preserve role clarity in line with the three lines model. Public entities should ensure a clear separation between a. management responsibilities, b. support and monitoring functions and c. IA. Internal auditors should not be assigned operational tasks or responsibilities that may impair their independence, while audit charters should clearly confirm unrestricted access, direct reporting and protection from role conflicts.
6. Treat IA capacity as a key condition for stronger IC. Staffing, professional development, certification and realistic allocation of audit time should be monitored not only as IA indicators, but also as enabling factors for the improvement of IC. Where individual units are too small or understaffed, proportionate solutions such as shared services, pooled expertise, or other collaborative arrangements should be considered.
7. Institutionalise managerial follow-up of audit recommendations. Management should establish regular follow-up routines, electronic registers of recommendations, evidence-based closure criteria and indicators on repeated deficiencies. This would help transform managerial support from a declarative principle in an operational mechanism that contributes to continuous improvement of IC.
8. Establish indicator bridges between IA results and IC maturity.
The evaluation framework should include indicators that directly connect IA activity with changes in IC, such as implementation of recommendations related to IC components, repeating of control deficiencies, reduction of systemic weaknesses, improvement of process documentation and progress

in areas previously identified by audit. This would help move from parallel evaluations of IC and IA to an integrated assessment of their functional relationship.

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