Analysis of the status and quality of internal audit in selected organizations

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Abstract. The paper deals with the role position and quality of internal audit in selected Czech organizations. Describes option for access to internal audit, the role and status of internal audit in an organization. In the next section, she addresses the Three Line of Defence model with the requirements of a high-quality internal auditing team, analyses the level of communication and reporting by both the internal auditor and the audited system. In conclusion, the paper provides an overview of the staffing capacity of internal audits. The method of collecting information is secondary research. The papers are use in the field of internal audits in selected organizations, internal technical standards, expert studies and reports published on the Internet. The aim of the paper is to get acquainted with the current state and level of internal audit.

1. Introduction

Two different approaches to internal audit can be identified in the current literature, to which the relevant definition is attached [1]. The first is the traditional approach to internal audit, which was previously considered to be a tool for analysing and evaluating internal business controls to ensure corporate integrity, truthfulness of information, effective business management, and everything in accordance with valid legislation. In this sense, the internal audit was perceived as a watch dog. In some organizations, this traditional concept of internal audit persists, even though we have a modern approach. The current concept of internal audit focuses not only on identifying shortcomings and shortcomings, but also on recommending appropriate measures to improve the current state of society, within the set objectives [2]. In a modern way, internal audit is considered as an advisory body that helps business entities find a better way to achieve greater efficiency and added value.

In recent years, there have been a number of internal audit changes, mainly due to a constantly evolving environment, changing customer requirements, competitive pressure, IT development and related computer risk. Emphasis is placed on the area of sound risk management and the role of internal audit in the identification, anticipation and evaluation of risk, compliance, business ethics, culture and last but not least, added value of internal audit. Gradually, the role of internal audit increases, focuses on risk management and improves organization performance. Looking at the changes, there is no difference between past and present internal audits, but from a global point of view, there is a significant shift in internal audit [1].

While the internal audit function varies, considerably from one organization to the organization, it is often involved in evaluating and improving risk management, procedures and elements of the internal control process. Internal audit functions are often performed as performance audits, compliance audits, assessment and internal control audits. Many internal auditors are members of the
Institute of Internal Auditors [3]. From the above, it can be inferred that internal audit is a dynamic and evolutionary activity that constantly adapts to changes in organizational structure, processes and technologies. Internal audit can also be done through outsourcing, but it is important to ensure that this audit focuses on the following factors [4]:

- Independence and objectivity
- Provision and consultation
- Added value and improvement
- Perception of the organization as a whole
- Definition of constraints

The Czech Institute of Internal Auditors defines internal audit as an independent, objective, assurance and consulting activity aimed at adding value and improving processes in an organization. Internal Audit helps the organization achieve its objectives by providing a systematic methodical approach to assessing and improving the effectiveness of risk management, management and control processes and governance and organization management [4].

2. The role of internal audit in the organization

Firstly, it is important to say that the introduction of an internal audit is not mandatory in all organizations. The relevant regulatory requirements or statutory obligation determine which organization must meet this obligation. Internal audit has a unique role in the organization, it is a comprehensive view of the organization and provides senior management with information on the effectiveness of internal risk management processes. It is also a good means of fulfilling the advisory role in improving existing processes and helping organization lead the recommended improvements. Audit findings are used to assess the effectiveness of the quality management system and to identify opportunities for improvement. The value the audit adds is different, it comes from different audit objectives and can also be perceived differently. In order for the internal auditor to add value, it is important that he has a good understanding of the organization, including its culture and competitive environment. The audit should remove what does not add value. If auditors learn to carry out the audits professionally, the value added by the audit will increase [5]. The organization should carry out audits at different time intervals to determine whether the quality management system is in line with planned activities and meets the requirements of the standard and the requirements of the quality management system and is effectively maintained.

The audit program must be planned taking into account the status and importance of the processes and areas to be audited, as well as the results of previous audits. Criteria, audits, frequencies, and audit methods must ensure the objectivity and impartiality of the process. Auditors may not audit their own work ČSN EN ISO 9001:2000. The most commonly used approach to determining the quality and benefits of an internal audit is to evaluate it in accordance with International Standards on Professional Practice in Internal Auditing. At least every five years, the standardization organization should undertake an external quality assessment, the final report of which should include a description of the strengths and weaknesses of internal audit, processes and organizations, including practical recommendations to improve performance and quality improvements. While this type of assessment provides guidance and assurance to organizations on their compliance with the provisions of the standards, relevant legislation, the definition of internal audit and the Code of Conduct, it speaks only about the contribution of the internal audit itself. When compliance with standards is expected, the internal audit is expected to add values. It is necessary to address the question of the extent to which candidates want the internal auditor to act as advisors [6].

3. The current status and status of internal audit in the Czech Republic

The internal audit survey covered 18 respondents from different sectors of industry and services. The evaluation was conducted in the form of secondary research and includes an analysis of professional publications in the field of internal audit expert studies and reports published on the Internet,
supported by international technical standards. For better clarity, the respondents were divided into the following sectors (Figure 1.):

- Financial Services – Finance and Insurance.
- Public sector – education, public administration.
- Service sector – trade, transport, storage and communication.
- Technology and communication sector.
- Industry – energy, mining and manufacturing.

![Figure 1. Percentage representation of individual sector by target.](image)

In Czech organizations, internal audit is most often associated with joint-stock companies. For the most part, it is functionally subordinated to the Supervisory Board or the Audit Committee. At present, the internal audit of the 12 cases, analysed is based on the principles of independence and is based on the bases build on international standards of internal audit. The remaining 6 analysed cases do not meet the independence requirements of the internal audit and weaken it is function in the third line of defence [8].

The “Three Line of Defence” model (Figure 2.) is primarily accepted in financial services but is also available in other sectors. The model is based on a layout of the level of internal controls in the organization. The first level of control is the lowest, but it is the most important control to minimize and reduce operational risks. It is performed directly by individual workers and subsequently by their superiors directly in connection with daily or otherwise regularly performed activities. The essence of the first line of control is the speed and flexibility for timely capture of risks and the prevention of their materialization. The second level of control is provided by the risk management, compliance and security departments. Here the company wide rules, concepts and policies that set the way for the first line are set and provide risk owners with information about potential risk across the organization. In the event of unexpected events, and first line changes, it is the second line to help solve the problems. The third level of controls is the internal audit. Independent internal audit provides the company assurance, management on supervisory bodies with assurance on the effectiveness of the company’s risk assessment and risk management and also includes the way the first and second lien of defence works [4].

The scope of a specific internal audit corresponds to the level of organizational regulation, the organizations membership in a local or international group, the approach to risk management and the organizations strategy and goals. From the point of view of analysed companies in the Czech Republic, they have the greatest knowledge of the internal audit function of a regulated organization from international relations. Another important feature of the maturity of the internal audit is it position within the company’s management system. It is clear that for a stable internal audit within an organization it is important to define specific objectives and strategies that subsequently contribute to
increasing the credibility of the internal audit and the already mentioned position within the company management system. The importance of internal audit undoubtedly helps the company to achieve its objectives and, above all, through a systematic and methodical approach to assessing and improving risk management, management and control and the company’s management system [7].

The survey of analysed respondents found (Figure 3.) that in 60% of respondents, the Internal Audit Service is located in the Czech Republic, with the remaining 40% of respondents for various reasons. The most common reason was that the parent company does not require it. The smallest number of respondents in the Internal Audit Department came mainly from the automotive sector [8, 9]. After this finding, out of a total of 18 respondents, only 11 respondents remained for further research.

The interesting finding was the subordination of the internal audit service (Figure 4.). It has been confirmed that the Internal Audit Service is functionally subordinated primarily to the Supervisory Board or the Audit Committee. In some cases, he was subordinate to the General Director or Board of Directors, but this does not meet the requirements of the International Standards on Internal Audit. This is mainly due to the formal role of the Supervisory Board or the Audit Committee. It is important that the management of the organization starts looking in the same way in the Audit Committee set up by the Supervisory Board, which assists with control activities. The support of the Internal Audit Service should express explicitly the management of the organization [1].
3.1. Communication of results and monitoring of internal audit corrective actions

One of the internal auditor’s most important skills for effective functioning and achievement of the maximum added value of internal audit is communications skills. Clear communication, which becomes feedback from the audited department or the management of the company, is an essential part of the internal audit objectives.

The important element of the internal audit report is information that results from the survey, investigation, and analysis performed during the audit (Figure 5.). The report must be in the prescribed form and summarizes the auditors opinion on the matter being verified with respect to the objectives, internal control and deficiencies identified. The report also contains recommendations for appropriate measures to address identified shortcomings [4]. Last but not least, the recommendations are contained in the final report. These are the dates when they are to be met. The Head of Internal Audit must implement a system to monitor the implementation of corrective actions. However, the management may decide not to apply remedies, in which case it is responsible for the risk incurred as a result of the failure to take corrective action. If this risk is too high in the internal audit opinion and would be unacceptable to the company, the internal audit chief should discuss it with the management.

The survey found that communication in the context of auditing the report was relatively good. The presence of the head of the internal audit team was confirmed by 5 of respondents form 11 respondents. It is very important for the internal auditor to present the key findings of the audit personally and thus to provide accurate information and benefits for the company. The interesting finding was that up to 8 of respondents from 11 respondents had regular communication in the form of monthly reports. For the remaining 3 of respondents, the presence of the audit service is often only formal and focuses on areas other than the internal audit area. Other interesting findings were feedback from the management of the company or audited system, with 7 of respondents from 11 respondents saying that feedback is gaining. This finding is important because feedback from the auditee system allows the Internal Audit Team to continually improve both it is activities and communications [8].

![Figure 5. Level of communication within the internal audit.](image)

3.2. Analysis of internal audit from the point of view of human resources

In the case of effective use of internal audit, it is function must be based on concrete, realistic bases, with a clear and comprehensible strategy, and must contribute to the modern management and management of the organization. To do this, the organization must develop, it is core resources, continuous education of people, work with data and information. Therefore, we can say that the basis for the quality performance of the internal audit function is people and effective communication within the company. Essential requirements for the performance of the internal auditors function are primarily analytical thinking, critical thinking skills, communication skills, data handling skills,
understanding of the company’s business model and IT knowledge. Effective work with data and IT support is the future of an effective internal audit. The general requirements for auditors are also given in the Guidelines for auditing management systems ČSN EN ISO 19011:2011. Auditors should have all necessary qualities that allow them to act in accordance with the principles audited. Behaviour of auditors should be: ethical, accessible to the public, diplomatic, attentive, respective, adaptable, persevering, determined, independent, brave, open to improvement, culture sensitive, ready to cooperate [10].

More than half of the survey found that 7 respondents said they considered the side of their internal audit team to be sufficient and were satisfied with their skills, good knowledge of processes and organizational situation. Four other respondents said they could imagine a larger team than before, mainly for better and more frequent analysis of key risk and processes, and could thus provide people with added value to their work. The survey details are shown in Figure 6.

The great surprise of the survey was the discovery of a lack of level of education in specific areas of IT and the audit of the key risk of cyberattack, which are becoming the most common subject of outsourcing IT services [8].

![Figure 6. Satisfaction with sufficient internal audit capability.](image)

4. Conclusion
The aim of the paper was to analyze the status and quality of internal audit in selected Czech organizations. The results of the survey brought interesting findings on the state of internal audit of Czech Republic. It is clear that as technology evolves, our needs are changing, new risks are emerging, higher and higher demands are placed on company management systems, including departments, managing internal audit. Each sector confirms a different level of internal audit and, therefore, other current needs for improvement. It is clear that the internal audit departments in the Czech organizations strengthen their stability. For further development, there is a need to continuously improve the quality and efficiency of the internal auditors work, with the help of further education, skills and communications skills. The basis for the good performance of the internal audit function is the people and effective communication within the company. There is also a need to support internal auditors from the management of the organization and an attempt to perceive the internal auditor as an added value partner.

Czech organizations are also in favor of modern market demands and the continued development of the Internal Audit Service not only in the field of human resources but also in the use of software support for internal audit processes.
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