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THE CONDITIONS FOR BENEFITING FROM THE INTERNAL AUDIT'S COGNITIVE AND DECISION-MAKING POTENTIAL IN THE ACCOUNTING INFORMATION SYSTEM (AIS)

Summary: The paper describes the internal audit's information potential, focusing on cognitive and decision-related information. The author identifies the conditions to be met to use such information effectively. The discussed conditions are related to organizational, psychological and social factors as well as to such areas as competences, communication, law and finance.

Keywords: accounting information system, internal audit, internal control.

1. Introduction

The accounting information system must be adjusted to the actual needs of company executives and the realities of the contemporary economy, and its objectives should be consistent with those of company operations, hence the significant role to be performed in the system by the internal audit. The major objective of the internal audit is to enable the company's management to get acquainted with the relevant corporate processes and, consequently, to make the right decisions. The effectiveness of the internal audit is conditioned by a number of factors. This paper aims to carry out an in-depth analysis of the factors related to the following areas:

- organization,
- psychological and social issues,
- competences,
- communication,
- formal and legal issues,
- finance.

The further chapters characterise these factors in more detail.

2. The cognitive and decision-related functions of the internal audit

The internal auditor carries out an analysis, formulates conclusions and offers recommendations, improving risk management procedures, internal control and management processes. The fact that audits process a great amount of information

may be taken advantage of. The ineffective use of the possibilities offered by audits leads to the waste of the business entity's resources.

The audit's major objectives in the area of acquiring information include the following:

- determination of facts,
- giving opinions (assessments),
- formulating conclusions,
- offering recommendations.

The performance of these tasks is facilitated not only by the information collected in the course of the analysis, but also by the auditor's knowledge, experience as well as by the internal and external sources of information (legal regulations, standards, internal regulations, etc.).

The auditor's established facts, opinions and recommendations are passed on to the company's management, constituting a basis for the decision-making process. Such activities contribute to the information and decision-making process, and the internal audit itself performs a number of functions. Special attention should be paid to the cognitive and decision-related function. These functions, until recently overshadowed by the priority of the control function, are gaining in significance. It mainly results from the fact that auditing is being perceived as an activity which creates value added and a tool for supporting the management's decision-making process.

The cognitive function involves the provision of information of cognitive character, i.e. the information which is used (may be used) by its recipients to get acquainted with the new facts concerning the company's functioning. In the case of AIS audits such a situation relates to the following areas:

- reliability of financial and accounting data,
- company's financial standing,
- effectiveness of the internal control in AIS,
- security of IT accounting systems.

The decision-related function consists in providing information of the decision-related character, i.e. the information which is used (or may be used) by its recipients in the process of taking action. In the case of internal auditing under AIS such information refers to the following:

- correct manner of maintaining bookkeeping files,
- improvements to the company's organizational structure,
- improvements to the system of collecting receivables,
- greater effectiveness of stock management,
- corrections in assigning authority to the particular work stations,
- implementation of effective anti-virus policies.

The cognitive and decision-related information resulting from the performed audits is mainly included in the following:

- final report – a post-audit report is the major source of information. Cognitive information is included in the auditor's findings, opinions and conclusions, and the decision-related information – in his/her recommendations;

- additional reports and explanations provided by auditors in response to the management’s enquiries, the performance of additional tasks, or significant events (e.g. exposed frauds) – they may be identified but not directly related to the performed audit (so called information reports);
- audit documentation including, in the first place, audit evidence focused on cognitive information (confirming information included in the final report);
- verbal statements made at the meetings with staff and company executives during the audit opening and closing debates, and in the course of current auditing procedures.

It should be remembered, however, that auditing should meet specific requirements in order to provide cognitive and decision-related information. The major requirements are presented below.

3. The organizational conditions

The organizational conditions include the following:

- setting up audit teams – it enables the internal audit unit to perform its tasks more effectively (auditors cooperate, share knowledge, assess one another and specialise in specific areas). Such teams should have the following features:
 - inter-disciplinary knowledge – auditors should possess knowledge of different fields and skills adjusted to specific tasks,
 - common mission – auditors should have a sense of identification and integration with IAC and the entire company,
 - efficient exchange of information and ideas,
 - established system of values,
 - control exercised by a highly qualified auditor,
 - well defined duties, competences and the scope of responsibility of all team members,
 - effective use of the auditors’ personal qualities and professional skills;
- empowerment of the internal audit unit in the company’s organizational structure and ensuring its independent judgment in the course of formulating opinions, conclusions and recommendations – it implies that auditing should be independent and that its independence should be reflected in its statute, defining IAC’s position in the organizational structure. If the statute is well structured and approved at the sufficiently high level of the decision-making process (preferably at a supervisory body level), it guarantees the auditor’s independence. Therefore, a bare minimum would be to subordinate the auditor to the President of the Board, but the target solution is to set up an Audit Committee;
- auditor’s access to the supervisory body – as a result, the supervisory body is provided with unbiased information on the business entity’s functioning. In addition to that, the auditor’s contacts with the supervisory body confirm the auditor’s independent position in his/her relations with the Management;

- formal delegation of authority, duties and responsibility as defined in the audit statute;
- appraisal system – evaluating grades given to auditors are of vital importance – they indicate that auditors do not fear assessment and that they are open to any suggestions made by the other members of the organization. In addition to that, assessment procedures improve the quality of control over IAC activities. Appraisal procedures should be related to three areas:
 - assessment of the quality of specific auditing activities – e.g. through ensuring the correctness of post-audit recommendations,
 - periodical appraisals of IAC staff – e.g. through the surveys of people with who auditors maintain contacts,
 - periodical appraisals of the performance of internal audit units – at least every 5 years. The areas to be checked include the reporting standards and the adopted auditing methodology. This task may be performed by an external auditing company or an auditor from other company entities. The objective of this assessment is to ensure continuous improvements in IAC’s performance and to increase its responsiveness to the changing environment;
- appointment of arbiters in the event of conflicts – any disputes in the relations between the auditor and the audited entity must be settled by the company’s authorised body. This function may be performed by the President of the Board or the Audit Committee;
- resorting to “an external service of internal auditing” – contrary to the commonly shared views, internal auditing need not be based within a given organization (see: [Bojanowski 2003]). If the necessity arises, internal audits may be commissioned to an external expert. Obviously, such an expert should be well acquainted with the company’s functioning. It indicates that it is possible and profitable only in the case of small companies which do not have their own internal auditing units.

4. The psychological and social conditions

The psychological and social environment is a vast and complex area in terms of defining its characteristics. The basic factors affecting the effectiveness of auditing include the following:

- management’s willingness to make changes – in order to follow the auditor’s instructions, company executives should be ready to introduce far-fetched changes;
- overcoming the fear and mistrust which accompany the employees’ contacts with auditors – the feeling of fear in contacts with auditors is experienced both by the company’s executives and employees, and it results from specific stereotypes which should be overcome. It indicates that auditors should not be exclusively regarded as controllers and assessors but also as people who offer

advice and assistance in the area of management, improved processes and everyday matters. Such an attitude conditions effective cooperation between the auditor and the audited entity;

- management's positive attitude to the auditor's recommendations – this attitude to the auditor's recommendations is of key significance. If the executives of the audited entities give the impression that they do not expect any recommendations from the auditor or that they do not intend to implement them, the auditor is not motivated to perform his/her tasks in an effective way. Similarly, if the employees of the particular departments believe that the performed audits do not lead to any effect, they regard them as useless;
- emphasis laid by auditors not only on negative phenomena (errors and irregularities) but also on the employees' skills, diligence and achievements;
- the auditor has no doubts as to the unbiased character and correctness of his/her opinions, conclusions and recommendations – this is an important issue related to the auditor's knowledge, skills and experience as well as to his/her self-assessment and personal qualities (modesty, self-confidence and self-esteem). It is not appropriate for auditors to overrate or underrate their own skills and abilities. The former attitude leads to biased opinions, while the latter one results in expressing ambiguous opinions.

The issue of the auditor's desirable personal qualities was undertaken a long time ago. According to B. Cadmus [1964], internal auditors should have broad knowledge of different areas, and their successful performance is conditioned by their personality, talent and qualifications. A similar view is expressed by H. Weiß [1985], who states that a successful internal audit is conditioned by the quality of the auditor's work, qualifications and personality. Interesting insights into the auditor's required performance are given by the research studies conducted in 1990 by the German Institute for Internal Auditing. The majority of the respondents (73%) believe that the internal auditor should "combine the qualities of a specialist and an erudite person" [Piaszczyk 2004].

5. The competence-related conditions

The auditor's competences play the major role in performing auditing functions. They have a great impact on the auditor's opinions and the way in which the auditor's profession is perceived by the environment. The major competence-related conditions include the following:

- auditor's sufficient knowledge, skills and experience – they condition the effectiveness of the auditor's work and ensure that his/her opinions, conclusions and recommendations are regarded to be professional. It should be noted, however, that knowledge in the field of financial accounting and research methods is not sufficient in the case of examining accounting information systems. Auditors are also required to have knowledge of management accounting, financial analysis, law, IT and management. It should be explicitly stated that it

is not easy to meet such requirements – changes in the above fields (especially in the areas of law and IT systems) pose new challenges and require auditors to engage in the process of continuous learning; therefore, setting up auditing teams seems to be a desirable solution;

- creative and rational approach to the proposed solutions – apart from appropriate methodology, the auditor should have the ability of creative thinking. Simultaneously, the proposed recommendations should be rational and correspond to the entity's objectives and resources (the recommendations which are not adjusted to the entity's potential are not likely to be implemented);
- disciplined auditing – audits should be performed on a regular basis and in a disciplined manner;
- auditing should be based on the risk analysis and focus on the issues which are of vital importance to company operations – auditing plans should consider all company operations including low-risk areas. Also, all the organizational entities should be aware of the fact that they may be subjected to auditing. Therefore, attention should be paid to the completeness and time frame of the performed audit;
- systematic trainings for, and education of auditors – they are of special significance in the area of frequent changes to legal regulations and IT innovations;
- the manner of performing audits should facilitate future quality assessments – the auditing methodology and documentation and interviews with staff should comply with formalised procedures);
- hiring at least some highly qualified auditors to supervise auditing work at an appropriate level of professionalism – they should have suitable track records: certificates or diplomas. These include the diplomas of certified auditors, CFE – Certified Fraud Examiner, granted by the Association of Certified Fraud Examiners, CIA – Certified Internal Auditor, granted by IIA, CISA – Certified Information Systems Auditor, granted by ISACA, etc. The combination of auditors' qualifications should cover the entire spectrum of areas in a given company. In the event of the lack of necessary qualifications in the auditing team, external specialists should be hired. In companies with a number of different departments auditors may come from other organizational entities. Such a solution contributes to the exchange of knowledge and unifies company procedures.

6. The communication conditions

An appropriate manner of conducting audits is conditioned by the effective communication between parties. The communication conditions which affect the effectiveness of auditing include the following:

- management's awareness of the type of information to be obtained from auditors and the way in which such information may be used – company executives should be aware of the possible benefits resulting from the conducted audit;

- management's clear explanation of its expectations regarding the internal audit – the effectiveness of auditing is conditioned by close cooperation with company executives and, in particular, the knowledge of their expectations with regard to the audited area;
- company executives should be actively engaged in the process of selecting the audited areas (e.g. through their approval of plans and their own suggestions as to the choice of audited areas); they should also decide on the manner of collecting and communicating information;
- auditors' knowledge of psychology and inter-personal communication. Its significance results from the following factors:
 - auditors establish direct contacts with the interviewed employees. A psychologically justified approach enables auditors to obtain necessary information in terms of the objectives of the conducted analysis. Its significance results from the fact that it is the employees who are the best source of information on the current developments in the company (the problems to be dealt with, possible improvements, etc.). Interviews conducted in a proper manner help identify problems and find suitable solutions,
 - internal auditors are not empowered to enforce their recommendations in the company's organizational entities, hence the need for effective communication with the heads of such entities,
 - auditors should be able to express their ideas in a transparent way during their meetings with company executives;
- appropriate form and content of post-audit reports – post-audit reports play the major role in communicating auditors' opinions, conclusions and recommendations. However, easy and effective access to such information is conditioned by a number of factors:
 - reported material should be standardised – it facilitates the recipients' better understanding of the reported opinions, conclusions and recommendations, and contributes to the further assessment of the conducted audit,
 - appropriate form of presenting the results of the audit – the form of a presentation (description, tables, graphs) may have a significant impact on the reception of the conveyed information, emphasising or hiding certain facts. Therefore, the presentation of the results should be unbiased,
 - communicating important information, even if it may not be directly related to the scope of the analysis – the auditor often detects other problems and possibilities which should be properly communicated;
- bottom-up reporting – in the event of minor issues (irregularities, errors) auditing information should be widely circulated – first to the interested person, then to his/her superior, but if the problem remains unsolved to the higher levels of the organizational hierarchy. The employees of the audited unit will be less inclined to hide or distort information for fear of being reprimanded by their superiors;

- the usefulness and timely character of audit information – the effectiveness of auditing and its perception in the company are dependent on the significance of provided information in solving vital problems as well as on the timely manner of delivering such information.

7. The formal and legal conditions

The formal and legal conditions which have an impact on the internal audit include the following:

- auditors' commitment to obtain and deliver sufficient, reliable and material evidence in support of their opinions, conclusions and recommendations;
- auditors' commitment to act in compliance with the commonly accepted auditing standards;
- management's commitment to implement post-audit recommendations – due to the lack of formal and legal regulations in this area (with the exception of the banking and public finance sectors) this should be regulated by the company's top executives (e.g. in the auditing statute), and any failure to comply with post-audit recommendations should be well-grounded;
- commitment to monitor the status of implementing post-audit recommendations – it is of vital importance: if the recommendations are not implemented, the audit is practically useless;
- internal auditors' formal and legal obligation (statutory) to be authorised to perform their duties (licences, certificates) as in the case of other professions (e.g. certified and chief accountants);
- legal obligation to make auditing information available to other organizations (especially controlling ones) and to make the financial auditing report along with financial statements available to authorised persons.

8. The financial conditions

The effective functioning of organizational entities is conditioned by their sufficient financial resources. Internal audit departments are not exceptions to this rule. The effective activities of such entities are conditioned by the following:

- adjustment of the Internal Audit Control's budget to its activities,
- assigning necessary resources to implement post-audit recommendations,
- appropriate compensation for auditors – it is necessary for people performing control functions not to be prone to corruption,
- assigning resources to the training of auditors,
- providing the Internal Audit Control with necessary resources to conduct their analyses (e.g. hardware and software for auditing activities, dictaphones, cameras, etc.),
- offering rewards to Internal Audit Control staff for their assistance in solving different problems, not only for exposing irregularities in the audited area.

9. Conclusion

It should be stressed once again that apart from the increasing significance of internal auditing, its great information potential is not effectively used due to a number of restrictions and difficulties. To overcome the existing problems, it is necessary to meet the requirements identified in this paper. It will not be easy to implement the proposed ideas promptly and effectively. Some of them require additional financial resources, the adoption of new legal regulations, and their implementation involves long-time efforts. Some of the ideas, however, may be put into practice by increasing the awareness of certain problems, changing the attitudes, undertaking consistent action, improving company organizational structures and implementing appropriate procedures.

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WARUNKI WYKORZYSTANIA MOŻLIWOŚCI POZNAWCZYCH I DECYZYJNYCH AUDYTU WEWNĘTRZNEGO W SYSTEMIE INFORMATYCZNYM RACHUNKOWOŚCI

Streszczenie: W artykule scharakteryzowano potencjał informacyjny audytu wewnętrznego ze szczególnym uwzględnieniem informacji o charakterze poznawczym i decyzyjnym. Zidentyfikowano również warunki, które sprzyjają ich wykorzystaniu. Wśród nich wymieniono i obszernie opisano warunki: organizacyjne, psychologiczno-społeczne, kompetencyjne, komunikacyjne, formalno-prawne i finansowe.