

# Cooperation of internal and external audit

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## Abstract

This article addresses the issue of cooperation between internal and external auditing, their similarities and differences, as well as the areas in which they complement each other. It presents the main assumptions and objectives of audits, their functions and shows the importance of integrating both of audits to increase company efficiency and thoroughly examine purposefulness and correctness of ongoing processes.

**Keywords:** Use about five key words or phrases in alphabetical order, Separated by Semicolon.

## 1. Introduction

An audit is usually considered when talking about a financial audit which aims to examine the financial statements for the accuracy of the financial data stored there [Renkas, Goncharenko & Lukianets, 2016]. Audit, on the other hand, is a broader process that can be performed not only to authenticate the company's financial situation.. Internal and external audit processes can be a tool with a wide range of applications, and the results of their findings can provide us with a lot of information about the company. These two types of audits are undoubtedly different in objectives, scope of research, their frequency and functions they perform, but both play a key role in analyzing and controlling the company's activities and its effectiveness. The purpose of my article is to show that the combination of internal and external audit applications is a key risk, quality and internal control management solution, and to show that effective use of auditing can contribute to increasing the efficiency of the entire company and allow for faster development.

## 2. The definition and purpose of internal audit

In Poland, the term 'audit' appeared as a result of the Act on 27 July 2001, which amended the Public Finance Act. This change was necessary at the time, as Poland made efforts to join the European Union. The negotiation provisions themselves between Poland and the EU mention the obligation to undergo internal audit by public entities [Piaszczyk, 2017, p. 151-156].

Modern internal audit is no longer just a control system that allows you to assess the compliance of management activities with external standards or internal arrangements. Currently, audit helps support and advise process group leaders not only in the implementation of their main tasks, but also in effective team management. According to The Institute of Internal Auditors (IIA), internal audit is an activity consisting in the constant and orderly examination of processes related to risk management, internal control and the overall organizational governance of an enterprise. These activities contribute to improving the operational activity of the company [Gleim, 2015, p. 2].

The basic features of internal audit are the independence and objectivity required of auditors as defined in The International Professional Practices Framework [Standard 1100, 2009]. This is due to the nature of the audit work, the impartiality of auditors is crucial so that all recommendations and work results are not subject to the risk of abuse of power by superiors [Milewska-Zawada, 2016, p. 248-257]. Auditors should also know the process they are investigating, which is why audit group members are often former employees of a given department or team working on this process and after an appropriate seniority, they moved to the audit unit of this position. Such an employee has full knowledge of the mechanism and can carry out a more thorough examination.

### 2.1. Functions of internal audit

The two primary functions of internal audit are advisory and assurance functions [Kabalski & Grzesiak, 2017, p. 10-13]. Assurance tasks are the basic function of the audit and are aimed at independent assessment of activities and assurance of its correctness related to risk management, internal control and its operating mechanisms and general organizational order. The auditor's doings and as a result of them issued an opinion on the operation of the process, is not 100% sure, unfortunately the audit team is not able to check all aspects of the process and discover all its shortcomings.

The second function of internal audit is an advisory function, much younger than the assurance function, created as a response to the needs of the managerial staff that helps to improve operational activity, and as a result it adds value to the company. The auditor's analysis and in this case advice are also not infallible and must be taken into account with a margin of error.

The two audit functions complement each other allowing the enterprise to grow. On the one hand, the audit team checks processes and, on the other, proposes other solutions to improve them, ensures good risk management while being able to advise on maintaining risk levels.

The auditor's extensive knowledge allows for these two activities, and if the tests were conducted reliably that confirms the belief in the properties of the assurances and advice given on their basis [Bednarek, 2015, p. 24-28].

**Table 1: Parties Involved in Auditory Tasks and Their Functions**

Ensuring Tasks	Advisory Tasks
Process owner - a person or group of people directly related to an entity, operation, function, process or system	Internal auditor - a person or group of people offering consultancy
Internal auditor - a person or group of people who perform the assessment	Customer - a person or group of people seeking and obtaining advice
User - a person or group of people who use the rating	

Source: Milewska-Zawada A., 2016, *Audyt Wewnętrzny Szansą na sukces przedsiębiorstwa w: Zeszyty Naukowe PWSZ w Płocku Nauki Ekonomiczne, Szkoła Główna Handlowa w Warszawie, t. XXIII, p. 252*

The objectives of internal audit may vary depending on the company's activities, first of all it will be to examine the company and provide objective evidence that the processes taking place in it are effective and are carried out in a manner consistent with previous assumptions and plans. It will be a specific assurance telling the company at its own request about the efficiency of processes taking place in the company. An audit may also highlight the need to improve the process and may compare the activities performed with appropriate procedures. An audit may also be a tool to discipline employees, but it must be remembered that an important feature of the audit is that it does not look for those guilty of negligence, but only examines whether the adopted procedures are followed. After the audit, it is important to check whether the recommendations have been accepted and properly implemented [Toruński, 2013, p.52-59].

### 3. Definition of external audit and its application

The external audit is conducted by independent auditors outside the company. It can be divided into several types of auditing. The other party's audit examines current or potential subcontractors. It usually uses its own team of auditors or outsources audits to a specialized company. External audits are carried out in accordance with the external audit program, also when necessary and before entering into a contract with a new subcontractor. As a result of these types of audits, the company gains more confidence in its subcontractors. It is also possible to have a third party audit in which, at the request of the company applying for the certificate, an auditor will examine processes to check if all standards have been achieved [Kuc, 2002, p. 357].

The most common type of external audit, however, is financial audit, that is checking the financial statements by a certified auditor in order to authenticate the data contained there, including whether the financial statements have been prepared in accordance with applicable standards, e.g. tax or commercial law, and whether the accounting standards rule has been applied correctly. The result of this process is the auditor's audit report that can confirm that no threat has been identified, the report has been prepared fairly and presents the company's true financial position. Users of this information are primarily investors who will make financial decisions based on the result of the audit. However, it can be seen that financial audit provides information to not only to investors, but above all to the supervisory board or the president about the effectiveness of management. Currently, statutory auditors check the reports and also assess the company's growth factors and also provide such information to management. When the need arises, auditors may propose necessary corrections so that the report can be drawn up correctly [Sawicki, 2012, p. 39- 45].

External audit services may have a more advisory dimension or act as a support for internal audit and control activities. Sometimes, to further support the operation of internal audit, additional independent auditors from external companies are employed. Tax advisory services, issuing reports and research reports on individual processes for the needs of management are just some of the benefits offered by audit. Forecasts set by the enterprise regarding financial information, information memoranda and registration documents, which are included in prospectuses, legally require certification by an independent external company.

The professionalism of the certified auditor as well as his objectivity and performance of the audit with due diligence and insight are the most important features of the auditor and directly determine the truthfulness and purposefulness of the opinion issued [Mikulska, 2012, p.110-120].

On this basis, it can be concluded that regularly undergoing external auditing, whether in financial or third party form, may be a key research aspect telling us about the effectiveness of management or enabling us to further development through obtaining certificates. As K. Winiarska emphasizes, the application of external audit was a consequence of the ineffective work of internal audit, which was not able to check the constantly increasing number of processes, states that the development of internal audit was the result of seeking a way to strengthen inefficient internal control. Therefore, external audit is used as a kind of support for internal control systems together with internal audit [Winiarska, 2008, p. 135-155].

### 4. Comparison of the scope of research and applications of internal and external audit

Due to the scope of research, it can easily be seen that the team of internal auditors is not able to check all entries in the financial books, therefore it is based on the internal control findings and procedures adopted by it. An external audit during an audit may see a lot more and check the internal audit findings to date. Its area of operation is larger, and the periodic nature of the study allows for a collective analysis of the past actions of the company.

The objectives of external and internal auditing are also different. Internal audit deals with the continuous testing of control solutions, the correctness of their methods and the effectiveness of their operation, which may contribute to improving the functioning of the entity. It performs the function of providing and consulting, striving to improve existing processes or check their effectiveness. It can also show errors and negligence in the work of the management, the actual fulfillment of the objectives and standards, as well as help reduce the risk level. The audit team consists of employees of the company who are supported by internal control mechanisms. Professionalism and objectivity are required of them so that personal or business relations do not distort the results of the study. They also need to have a lot of knowledge about the processes taking place in the company so that they can properly understood and thoroughly analyzed.

On the other hand, the external audit periodically examines and provides information on the financial situation, possible deficiencies or possible risks to external investors and the supervisory board. Successful completion of the auditor's audit and obtaining a positive opinion can be crucial when attracting new investors or lenders. The research of the other party enables making informed decisions regarding the selection of subcontractors and strengthens trust between enterprises. The next aspect is also the possibility to apply for certificates that will confirm the professionalism of the company, its standards and the purposefulness of its activities, and thus contribute to the increase

of prestige and strengthen the good image of the company. Statutory auditors are employees of an external company which, at the request of the supervisory board or owner, conducts an audit with due diligence, maintaining the objectivity and professionalism expected from users of the opinion.

Internal and external audits differ in the scope and frequency of the audit, its application and users of the information obtained, as well as the person of the auditor who is to have the same principles and attitudes, performing different functions. When the internal audit task is to advise the management staff and assure them of the purposefulness of their activities, as well as to check whether the assumed goals are met, the external audit is mainly to check the accuracy of the information contained in the financial statements and as a result of this audit provide an opinion based on past events.

## 5. Conclusion

An important aspect of auditing in both forms is the great need for their cooperation with maintaining a healthy level of caution [Mazurek-Różynek, 2009, p.12-13].

The recommendations indicated by the Ministry of Finance are indicating the relations of accountants and auditors should be based on cooperation and collaboration, aimed at the exchange of information on organizational solutions, areas of the mechanisms of research, as well as controls and their results as well as possible errors in the functioning of controls. Decisions about sample selection and test method should also be made by both audit teams informing each other of possible results [MF, 2003, p. 10-11]. On this basis, we can conclude that the different characters of the conducted research have the possibility and should even complement each other. Such cooperation will bring mutual benefits for the auditor. beneficial impact of knowledge and experience of internal auditors on the overall course of the audit as well as additional time for thorough examination of relevant areas without the risk of extending the duration of the audit. The activities of a statutory auditor with a team of internal auditors contribute to the improvement of his qualifications, and the internal auditor can learn a lot by working with a statutory auditor. The audit team together with external auditors can recognize processes and mechanisms that need further improvement, the more so that reporting information will expand in the future [Renkas, 2013].

Effective coordination of external and internal audit activities as well as internal control mechanisms may limit duplication of audit work, lead to a reduction in costs and time of performing research activities as well as improve the overall effectiveness of control activities and increase the reliability of the results obtained. Due diligence in the planning of audit processes, internal audit and internal control may contribute to fewer deficiencies and ultimately to obtaining a better opinion of the auditor. Care for the coordination of audit groups is crucial for the development of the enterprise and conscious decision-making regarding the conclusion of contracts with subcontractors or changes in the most important processes to improve the efficiency of the enterprise [Sawicki, 2012, p. 39- 45].

The activities of both audits provide a broad picture about the company's operations, controlling processes and their results, as well as the correctness and credibility of their recording. They fulfill advisory, verification, assurance functions and can significantly contribute to the increase of company efficiency.

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