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Significance of Internal Audit and Internal controls in an organization through an operational lens – Company Case Study

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This thesis focuses on the significance of internal audit and internal controls in an organization through an operational lens that is emphasized in the case study conducted. It focuses on the operational efficiency of the case company and the internal audit department that executes such functions in the organization. The purpose of this thesis was to resolve the significance of both concepts impact on the organization daily operations, and what improvements could be found.

The literary review is divided into two parts: internal audit & internal controls, and internal audit & internal controls in an organization. The literary review aims to cover the broad array of definitions and key terms related to the thesis topic. Data for the literary review was composed from published sources and online sources.

In the empirical part of the thesis that follows, qualitative research methods were applied, and additional data was collected through interviews. The interview targeted two personnel from the case company. These results are debated and compared to the base established by the literary review in order to reach a conclusion.

Results of the research show that the case organization gains significant benefits from internal audit and internal control functions, especially for their operational processes and the betterment of such.

Keywords	Internal audit, internal control, risk management, quality management, operations management

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1 Introduction

Now more than ever before, businesses operate in a fast and ever-developing environment. Their performance and profit are based on the ability to their aptitude on fulfilling their organizational goals and adapting with these changes. In layman's terms, getting better at their tasks throughout the company and not staying behind the development.

On top of merely strategical risks, businesses must keep in mind a varied range of internal and financial risks.

"Governing bodies and senior management rely on internal auditing for objective assurance and insight on the effectiveness and efficiency of governance, risk management, and internal control processes." (Anderson et al., 2017).

July 30, 2002 the U.S Congress passed the Sarbanes-Oxley Act (SOX) in order to protect investors from the possibility of deceitful accounting activities by companies in response to accounting malpractices in the beginning of 2000's. During that time public scandals such as Tyco International PLC, WorldCom and Enron Corporation trembled investor assurance in companies' financial statements and commanded an overhaul of regulatory standards (Investopedia 2018). One act among many during that time, forced companies globally to increase their attention in internal audits and controls in order to avoid damage to reputation and their finances. The SOX-act and the introduction of COSO Framework in 1992 (Protiviti Inc, 2016) powered growth and fast development of organizational importance through internal audit and internal control which makes this a fascinating and significant topic to research. Researching this through the scope of the case company makes it possible to get a deeper and more all-inclusive understanding of the topic when it is based on an actual, real business example.

This creates an interesting premise for the research. More-so, the case company and my contacts with-in provide knowledge how internal control and internal audit are used in a subsidiary of a global logistics services provider.

1.1 Relevant literature

The literature concerning this topic is relatively limited and the relevant theories have a strong consensus. One of the main problems is that even though there is consensus with how internal audit and internal control is important, their impact is difficult to measure exactly. Some feel negative feelings towards audits which is understandable since the person conducting the audit is possibly a stranger coming to evaluate your work is in itself stressful. It is possible that after an audit has been executed and correction requests are given, the company will follow open cases and then the changed KPI's will be compared to KPI's from before the audit event (same key performance indicators but with improved or degraded figures). The literature has an extensive array of models and processes that a company can utilise in its operations so making it easy to implement. Second problem is the fact that most literature written about the subject of internal audit and internal control is written by auditing foundations and organisations, thus making it important to question sweeping statements on the importance of such activities since they have a stake in the matter. Lastly, a problem arises when auditors are acting without best intentions in mind. Fraudulent results that may have been tampered with ill-gains in mind will skew the results. This is always a possibility.

I have chosen three publications as the backbone for the theory behind the research:

Paterson, J. 2015. LEAN AUDITING Driving Added Value and Efficiency in Internal Audit. John Wiley & Sons, Ltd

Anderson, L. et al 2017. Internal Auditing Assurance & Advisory Services. 4th Ed. Internal Audit Foundation.

Leung, P. et al 2003. The role of internal audit in corporate governance and management. School of Accounting and Law, RMIT University, The Institute of Internal Auditors Inc Research Foundation, The Institute of Internal Auditors Australia

These will provide strong theoretical foundation for the research in why internal audit and internal controls are needed, how they are executed and what results can be expected from those, depending on how they are performed. The third publication is a research conducted by a team of professors for the Institute of Internal Auditors Inc. Research Foundation to find better auditing practices and improve the old.

The following two publications concentrate more on the automated processes that are there to ensure correct procedures and continued improvement through efficiency:

Coderre, D. 2009. Internal Audit Efficiency through Automation. John Wiley & Sons, Ltd

Pitt, S. 2014. Internal Audit Quality Developing A Quality Assurance and Improvement Program. John Wiley & Sons, Ltd.

2 Methodology

The research will answer the following questions (main research question underlined, sub-questions to help conclude a coherent answer):

- <u>How are the internal audit and internal control functions implemented in the case company?</u>

- How does the case company decide on needed internal audit and internal control?

- How does the case company measure performance and what actions are taken to improve its operations?

- <u>What could be improved on their audit and control processes?</u>

- <u>What is the significance of internal audit and internal control to the case company?</u>

Firstly, research concerning the case company will be done in co-operation with the company. First, governing theories will be explained in junction with the research topic, then, the case company will play an integral part in the research as they have agreed to let the researcher delve deeper into the inner workings of the company. Two internal audit personnel from the case company were interviewed for the thesis. Both have expertise from internal audit functions. He oversees the audit department and has deep knowledge on what is audited, how and when, and what kind of internal controls are implemented in the company. The company has just implemented an internal control tool that is proposed to help the company follow accidents and problems that arise inside the company. Possible anonymity is proposed as well to help overcome the problem where people are scared to report problems and accident, fearing repercussions. Data will be gathered as well through materials gathered from the company contact personnel, relevant information chosen from training manuals, auditing reports, internal audit and internal control tools and systems (documentary analysis).

Secondly, data will be gathered through observations to garner a wider range of understanding of the case company. Data gathered though observation will be qualitative since the time and resources needed for a quantitative observation data gathering exceed the allotted time and resources (SkillsYouNeed.com, 2019)

Strength, weaknesses and solutions to possible problems of fore mentioned approaches include:

<u>Interviews:</u>

- + Complex matters are easier to gain answers to if interview questions are molded to hit the mark.
- + Decades of experience at your disposed can yield answers to questions that raw quantitative data might now
- + Time and resource positive method
- + Dishonest interviewees giving false data
    - → Only possible data source, cross-reference results with other available data in to ensure reasonable level of trustworthiness
- + Difficulty of getting answers to sensitive questions concerning company financial et cetera data
- + Difficulty of finding time from the correct personnel who are pressed with time
    - → Crafting well thought-of questions in relation to the questions needing answers thus creating interest in the interviewed personnel

<u>Documentary analysis:</u>

+ High volume of data that can be gathered
+ Smaller chance of false data than with interviews
+ A good window into how the company wants to present itself to its employees and government officials
- High volume of data presents an obstacle with time and resources
  → Clear goals and what kind of data is needed to be analyzed and processed

<u>Quantitative KPI analysis:</u>

+ Extremely high volume of data/raw data
+ If properly presented gives a clear indication on key performance points
- Possibility of too much raw data if the data has not been refined in any way
- Possibility of skewed data
  → Getting help from the right professionals whose responsibility is to have said data ready at hand to be presented in an understandable form

<u>Observation:</u>

+ Possibility of detecting things in the company that is not possible from intra company publications or data
- Highly qualitative, difficulty in modifying data to presentable form that is reliable

→ Observational data must be done in a way where there are enough observations documented of a single transaction

2.1 A preliminary conclusion

Confidential data redacted due to confidentiality reasons.

3 Literary Review

3.1 History of Auditing

Modern accountancy and auditing professions development must be seen through the lens of giant growth that has taken place since the Industrial Revolution. Since businesses were comparatively small there was little need for developing complex accounting and auditing procedures. After the scale of these operations and investment in joint-stock companies (by shareholders that had no direct say into how the company was run) started to skyrocket, it became required for the managers to present figures to the shareholders periodically. At the same time, the managers of unsuccessful companies had a possible interest in hiding bad figures which led to scandals and fraudulent accounting. Governments in different regions started taking actions to present such acts by making it mandatory to have the reporting person not be a director in the company. Through such acts accounting was born in the modern world. The continuing growth and increasing complexity of enterprises drove and drivers the need for skilled auditors who are members of recognized bodies of professionals (Basu, 2009, chapter 1.1)

Origins of the word 'audit' is from the Latin 'audire' that translates 'to hear'. The origins of audit can be traced back to 4000 B.C. Historian believe that formal recordkeeping systems were kept and first instituted by governments and organized businesses in the Near East to help ease their concerns related to correct accounting of receipts, collecting taxes and reimbursements. Comparable developments occurred in China, during the Zhao dynasty (1122 to 256 B.C). Indications of audits can be traced back to the public finance systems in Greece, Babylonia and the Roman Empire and the City States of Italy, which developed a systematic structure of checks and counterchecks. These states were worried specifically of officials prone to corruption and bookkeeping errors. This in turn helped the ushering of double-entry bookkeeping in 1494 A.D which was critical in exercising more control over managers and to prevent errors and corruption (Ramamoorti, 2003, p. 3).

What has had a huge impact on the modern internal auditing profession, is the forming of The Institute of Internal Auditors, which was established in the United States in 1941. Internal auditing historian Dale L. Flesher notes (Ramamoorti, 2003, p. 2) that establishing of IIA has contributed to:

- The main global professional association devoted to the promotion and development of the practice of internal auditing.

- The recognized authority, chief educator, and acknowledged leader in research, standards, certification and technological guidance for the profession worldwide.

- Global headquarters for 76,400 members in 141 countries.

These statements are interesting when considering their humble origins, small group of 24 members who held the opening ceremony in New York on December 9, 1941.

Nowadays, a leading figure in the internal auditing field, the IIA is headquartered in Florida, the United States, it is the internal audit profession's global voice, standard-setter, and resource for professional development and certification (Theiia.org, 2020). A 38-member Board of Directors globally oversees its affairs. Executive Committee is made of the chairman of the board, senior vice chairman, five vice chairmen, a secretary, and two of the most recent former members of the board. Its mission is as follows: “The mission of The Institute of Internal Auditors is to provide dynamic leadership for the global profession of internal auditing. Activities that support this mission include:

- Promoting and advocating the value internal audit experts bring to their organizations.
- Providing inclusive specialised educational and development opportunities, certification programs, and professional practice guidance.
- Disseminating, promoting, and researching knowledge regarding internal auditing and its part in risk management, control, and governance to practitioners and stakeholders.
- Educating professionals and other relevant parties on best practices concerning internal auditing.

- Creating a global community of internal auditors that share experiences and information.

  Presently boasting more than 200 thousand members globally, also has granted its most sought-after certification Certified Internal Auditor (CIA) to over 160 000 internal auditors (Theiia.org, 2020).

3.2 Definition of Internal Auditing

The current definition, as adopted by the Institute of Internal Auditor's (IIA), states: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (Anderson et al., 2017, p. 2-7).

Internal auditing is a profession guided by a mission to enhance governance, control processes and risk management. Even if the different aspects of internal auditing may sometimes vary between different regions and organizations, desire to management in improving organizational outcomes is central to its purpose. Internal auditing feels and looks different for each organization. Functions of the best internal audit functions reflect the values and priorities of respective organizations, meaning there is no right approach to internal auditing. Biggest challenge that the chief audit executive faces is to comprehend these values and priorities and to incorporate these in their operations (Pitt, 2014, p. 3).

The fundamental purposes, nature and the scope of auditing can be divided into the following key components (Anderson et al. 2017, p. 1-3 – 1-7):

1. To help the organization accomplish its objectives

Reflected either in the vision statement (future related) or mission statement (ongoing related), crucial to the organizations ongoing success, is to achieve goals it has set for itself. These goals include strategic objectives, operations objectives, reporting objectives and compliance objectives (University of Washington, 2020). What this means in relation to the internal auditor, these objectives provide a clear link between them and internal auditing engagement objectives. To illustrate through an example:

ILLUSTRATIVE BUSINESS AND AUDIT ENGAGEMENT OBJECTIVES

BUSINESS OBJECTIVES	Business Objectives		Audit Engagement Objectives
Strategic	Grow the organization's market share by acquiring complementary businesses.	>	Ensure that the information management uses to decide whether to acquire Company X is accurate, complete, and valid.
Operations	Ship all orders no later than 48 hours after receiving the orders.	>	Determine whether orders are, in fact, being shipped within 48 hours of receipt.
Reporting	Record only valid sales transactions.	>	Verify the design adequacy and operating effectiveness of control activities put in place to ensure that recorded sales actually occurred (in other words, recorded sales reflect the transfer of ownership on goods shipped to customers).
Compliance	Comply with Occupational Safety and Health Administration (OSHA) regulations.	>	Determine that policies and procedures established to ensure compliance with OSHA regulations are well understood, documented, and communicated.

Figure 1. Business and Audit Engagement Objectives (Anderson et al., 2017, p. 1-4)

2. Appraising and improving on the effectiveness of control, risk management and governance processes

An organization, without successful mechanisms of risk management, control, and governance, can not achieve its objectives and maintain performance. Risk management means the process of how management tries to deal with uncertainties that could negatively impact their ability to conduct business (in example, workplace accidents). Governance means how the board of directors oversee, authorize and direct the management to achieving their organizational objectives. Lastly, control, which is strongly linked with risk management, is the process maintained by the management to keep risks at acceptable levels. All these three processes focus on achieving the organizations objectives, in which board of directors is responsible for governance, and the management is responsible for risk management and control. Internal Auditing plays a crucial role in improving and evaluating these processes (Moeller, 2016, p. 8) but stops short of leading or guiding risk management, control or governance. These need to be separate.

3. Consulting and assurance activities intended to add value and improve operations

The main purpose of assurance activities is to measure evidence relevant to the customer and provide conclusions concerning the subject issue.

The main purpose of consulting services is to produce advice and supplementary assistance, usually at the specific request of engagement customer. Both parties usually beforehand agree on the specifics and the scope of the engagement.

4. Objectivity and independence

For the internal auditor to be impartial, means that they can make unbiased judgements. One way to ensure this, they should not involve themselves with the day-to-day operations.

For the internal auditor to remain independent, they should report to an authority that has a sufficient level of impact engagement coverage. Often internal auditors report to the CEO and the Board of Directors to achieve this level of engagement coverage. (Anderson et al., 2017, p. 1-6)

5. Disciplined and systematic approach

The internal monitoring and advisory responsibilities must be carried out in a structured and controlled manner to effectively add value and boost operations. Fundamental stages of executing an auditing engagement are the three following stages: engagement planning, performing the engagement and communicating results of the engagement.

The distinction between auditing and accounting is significant, as their natures are very different. Mautz and Husein (1961, p. 16) describe the relationship of auditing to accounting to resemble ‘business associates’, not ‘parent and children’. This analogy is seen to be very accurate, as accounting and auditing focus on very different elements of the same project. Accounting generally includes the collection, classification and summarization of financial data. Accounting therefore aims to reduce a mass of detailed information to more understandable, easier-to-access proportions. Auditing, on the other hand, does not measure nor communicate these practices, but is more analytical and investigative part of the project. Auditing does consider business conditions, but from a different perspective than the accounting: the support for financial data. Mautz and Husein portray auditing to have its roots in ‘logic’ rather than in the reviews accounting.

Even if the ideas and conclusions drawn in the quote are done by an external auditor, they are relevant in the context of how an auditor’s assurance and consulting services are investigative and analytical, and need to be based on logic in order to reach conclusions from gathered evidence in order to provide added value to the shareholders, managers and the board of directors.

3.3 Quality Assurance and Improvement

One aspect that sets organizations apart, is a clear understanding of how value is seen by their shareholders and customers. They try to meet quality expectations by measuring their performance and are on the lookout for openings to unceasingly develop their products and processes. Started in the mid 1920’s, the quality management movement was crucial in how we understand the dependence relationship between quality, success of the organization, and customer satisfaction. Now a standard, was first imagined by revolutionary thinkers such as Joseph Juran, J. Edward Deming and Kauru Iskikawa (Pitt, 2014, p. 13)

Today, internal auditors are in a perfect position to help the management to improve their quality processes whilst simultaneously improving their own internal audit role. As is demanded by their role and level of independence, they need to have a clear understanding of all the layers of an organization, and this gives them an edge in achieving previously stated act of helping the management improve process quality inside the organization and to provide added value.

To understand quality, performance and value, it is crucial to define them. Quality is both relative as it is unique. To figure out the relative quality of in example a product, two products need to be compared or comparing a singular product against an established standard. At the same time, there is a level of subjectivity linked with quality. What might mean quality for someone, is not always shared by a second individual. This is fundamentally linked to how people perceive value and as such difficult to measure. Internal auditors should consider two things: improving the quality of their products and focusing on the areas of the organization that will improve the overall quality of the whole organization.

To measure performance, two things need to be taken into consideration: outputs and the outcomes of such actions. In other words, ongoing activities and the ultimate results. Monitoring operational performance is an important activity for internal auditors.

Like quality, value is a subjective and abstract concept, changing from organization to individual in how it is perceived.

There are multitude of different models created focusing on quality management and quality assurance. These models concentrate on continuous development and the participation of personnel throughout the organization in order to deliver quality.

The previously mentioned pioneers, Joseph Juran, J. Edward Deming and Kauru Iskikawa, all created their own quality management systems. Mr. Juran quality management model was incorporated in his book *Quality Control Handbook* written in 1951. He worked in Japan from 1950's to the 1980's. It presented a concept called *quality trilogy,* formed by quality planning, quality control and quality improvement. Mr. Deming introduced the concept of the continuous improvement, or the "Deming cycle". Dr. Ishikawa was instrumental in the creation of Japanese quality control movement in the 1950's, along with Mr. Deming and Juran.

What later followed, was the formation of International Organization for Standardization, and the standardized ISO-certificates, that are discussed more in chapter 5.2.

Internal auditors do not need to be experts in quality management to take advantage of the work of experts like Juran and Deming. Functions the internal auditors perform can include constant improvement into quality assurance procedures (Pitt, 2014, p. 21).

3.4 Definition of Internal Controls

"We can think of few activities within an organization that are more important to its success than maintaining internal control. Internal auditing provides management with genuine assurance that adequate controls are in place, that they are being performed as intended, and that any failures are investigated and remedied on a timely basis" (The IIA, 1999, p. 54)

Enterprises have objectives that it strives to achieve, and risks that threaten those objectives of being fulfilled. There are several different frameworks that are created for internal control. Internal control can be defined using these five elements:

→ Equipped to achieve objectives, one or multiple separate but overlapping categories, reporting, operations and compliance.

→ A process comprised of activities and ongoing tasks.

→ Effected by people, through actions that they take at every level of the organization to effect internal control.

→ Ability to provide reasonable assurance, but not absolute, to the organization's senior management and board of directors.

→ Malleable to the organizations structure, elastic in application for the organization or for a part of the organization; division, subsidiary, operating unit or process of business.

First published in 1999, the Turnbull Report (Turnbull, 2005, p. 7) defines the internal controls and its scope as follows: processes, policies, behaviours, tasks and other parts of a company that, combined: help ensure compliance, help ensure the amount of internal and external reporting and makes efficient and effective operations possible.

A company's system of internal control will reflect its control environment which encompasses its organisational structure. The system will include:

• control activities

• communication and information processes

• the processes that ensure monitoring the continued effectiveness of internal control system

The internal control system should also:

• be rooted in the operations of the company and create part of its culture

• capability of responding rapidly to developing risks to the business rising from factors within the business and to changes in the business environment

• include processes for reporting instantly to suitable levels of management any important control faults or weaknesses that are recognised together with specifics of corrective action being undertaken

A comprehensive system of internal control reduces but does not and cannot remove the possibility for human error, poor decision making, control processes being purposely circumvented, by personnel and others. Therefore, it provides reasonable, not absolute assurance that an enterprise will not be mired in reaching its goals and objectives, but does not provide certain protection against an enterprise failing to meet its business objectives or material mistakes, fraud or breaches of laws and regulations (Turnbull Report 2005, p. 7-8).

3.5 COSO Framework

Analysis based on business and accounting failures over the years, showed that controls over in example simple cash deposits and such is not enough but a broader view of controls was necessary in addressing different management, oversight or information processing weaknesses that contributed often to such events. There was no such framework broad enough to accomplish this, before COSO framework was created to fill that void. The COSO framework is the only integrated control framework that assesses the effectiveness of internal controls over financial reporting. The COSO framework identifies five key components of internal control (Graham, 2015, p. 2):

1. Control Environment
2. Risk Assessment
3. Control procedures
4. Information and communication
5. Monitoring

Figure 2. COSO Framework (Graham, L. 2015, p. 4)

Figure 2. depicts the original framework, when figure 3. displays the updated model that illustrates how all five components of it influence each other. This revised attempts to

display controls affecting the entire enterprise or a specific division, region or product line (Graham, 2015 p. 5).

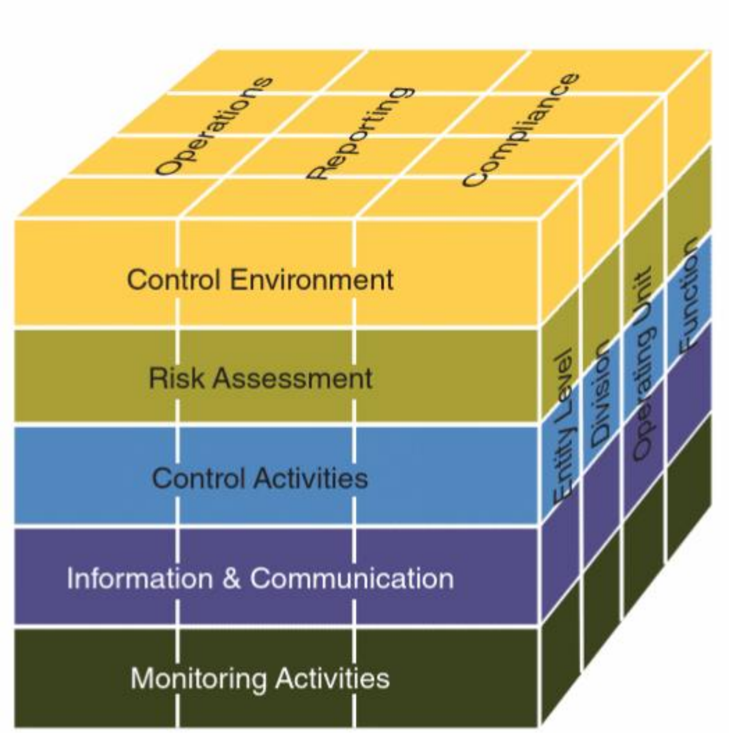

Figure 3. Updates COCO Framework (Graham, L. 2015, p. 4)

4 Internal Audit and internal control in organization and the Three Lines of Defence model

Both internal audit and internal control might on surface level look similar, but they differ in their functional level. Internal audit focuses on being a function when internal control is a system set in place to protect the company against risks. Internal audit assesses the controls put in place, when internal control puts them in to place. Internal control identifies relevant risks the development of reliable controls to be implemented. One of the largest differences between internal audit and internal control is their independence level. Internal audit is independent from the organizations management when internal control is developing its systems in collaboration with the management. Internal audit usually reports to the Board of Directors or an Audit Committee. That means that the management is also in part responsible for the application and maintenance of the internal control systems when internal audit evaluates how well these systems function and do not report to the management since this could potentially create a dependence relationship and hamper their ability to function well.

The Three Lines of Defence Model was developed to represent how different teams and specialties can function and cooperate for the risk management of the organization:

Figure 4. Three Lines of Defence (IIA, 2013)

Even if neither senior management nor governing bodies aren’t considered to belong to these three lines of defence, the risk management system would not be complete without them. They are in fact served in a way by the three lines of defence. They are the primary shareholders served by the “lines” and they are best positioned to ensure the Three Lines of Defence is incorporated functionally in the organizations control and risk management processes. The governing bodies and senior management accountability and responsibility to set the goals and objectives of the organization and set strategies on how to achieve those. At the same time, they set the governance structures and its processes that manage the risk whilst striving to accomplish set objectives. The three lines of defence incorporates the following groups: functions that manage and own risks, functions that oversee the risks, and functions providing independent assurance. In other words, operational management owns the risks, and are charged with implementing corrective actions to address control and process shortages. Firstly, a risk management function and/or committee that oversees application of best risk management practices in the organization, a compliance function that has a focus in complying with the related laws and regulations, and secondly a controllership that monitors risks of financial nature as well as financial reporting issues that might arise. Lastly, the internal audit that provides assurance to the governing bodies and senior management on how effective the governance, internal controls and risk management is implemented and executed in the organization. Outside the three lines of defence lie the regulator and external audit functions. They lie outside the organizations structure but can have an important role in the organizations control structure and overall governance. The more regulated an industry is, the larger the role a regulatory body or external audit plays. Regulators have the power to set requirements in how an organization control functions are set. These two outlying functions can be seen as two extra lines of defence if coordinated efficiently, providing additional assurance to the organization (IIA, 2013, p. 1-6).

It is worth taking note of how important it is to set up the organization's internal governance in an efficient way as defined by Dittmeir and Casati. (2014, p. 10):

1. A singular, clear framework for the risk management and internal control system of the organization

2. Robust communication of governance and business objectives, that allow for the classification of suitable and balanced risk moderation or control objectives for respective process

3. A complete cross-functional method to assessing risks and controls

To summarize, a lacking internal control system would be a hinderance that slows down the company, when on the other hand, an over controlled system would lead possibly to greater costs than gains. Or, on the most extreme spectrum, an executive might take advantage of a lacking control system what happened to Marrone Bio Innovations Inc. in 2013, where its Chief Operating Officer had posted fraudulent financial results to inflate the company revenue and was thus charged by the U.S Securities and Exchange Commission (Harvard Law School Forum on Corporate Governance, 2016).

5 Case Company

5.1 Company Profile

Confidential data redacted due to confidentiality reasons.

5.2 Internal Audit Process

Confidential data redacted due to confidentiality reasons.

5.3 Quality Management System and Certificates

Confidential data redacted due to confidentiality reasons.

5.4 Internal Audit Checklist in the organization

Confidential data redacted due to confidentiality reasons.

5.5 Regulations and standards

Confidential data redacted due to confidentiality reasons.

5.6 Internal Audit in the organization

Confidential data redacted due to confidentiality reasons.

5.7 Internal Control in the organization

Confidential data redacted due to confidentiality reasons.

6 Conclusion

This research has focused on the importance and role of internal audit and internal control in an organization. A company case study was implemented in order to answer questions in how these concepts are executed, regulated and what kind of an impact do they have on the operations of the organization.

The results of this research suggest that internal audit has a positive impact on the day-to-day operations of the company. Correctly developed internal audit functions can have a positive impact on risk management, business operations and decision making on numerous levels of the organization. The attention to improving the organizations operations, level of attention to the development process of internal audit function, and the supporting relevant literacy are good indications the functions importance to the organization.

Internal controls are implemented in the organization by the management, dictated by the Standard Operational Procedures and monitored by the internal audit. Internal audit also makes sure that the controls implemented are sufficiently strong and might need necessary correcting by the internal audit to ensure proper functioning. Internal controls in other words are implemented to achieve accurate and reliable reporting, necessary compliance with laws and regulations, and efficient operations.

Interviews and data processed provide that for of these both concepts to be working appropriately, they must reside in the central beliefs of the senior management, management and employees. Furthermore, internal control must be established so that it fits into the working culture and meets the needs of the organization. When both concepts are perceived positively amongst employees guarantees better results. This suggests that the original hypothesis of the research to a degree, it true.

Literary review of internal audit and internal control established that both concepts are vital in an organization, even if through differing ways. This especially important the larger the scale of their operations since scale makes it easier for “blind spots” to appear and makes monitoring of specific processes important.

The results of the research would suggest that continuing the work done by auditing department on improving the work culture and the culture of transparency will reap continued benefits to the organization. Also, continuing that would possibly reveal more operational “blind spots” that could be turned into greater productivity.

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Appendix 1: Interviews

Confidential data redacted due to confidentiality reasons.