

## **PERFORMANCE MEASUREMENT IN THE INTERNAL AUDIT DEPARTMENTS IN POLAND – THE STATE OF THE ART AND PROSPECTS FOR DEVELOPMENT\***

*Piotr Bednarek*

Department of Cost and Management Accounting  
Wrocław University of Economics

**Key words:** internal audit, performance measurement, efficiency, effectiveness.

### **A b s t r a c t**

The paper reports the major results of a study of performance measurement of internal auditing in various organizations operating in Poland in 2013 and prospects for development. The research implies that many internal audit departments formally do not measure performance, while others do measure, but only informally. Many times satisfaction indicators of key internal audit stakeholders are not identified, the information on performance is not reported to anyone apart from the internal audit staff, and the information is not used for continuous improvement. The most often used performance measures in practice are focused on measuring effectiveness of audit processes and impact of internal audit services on organizations' performance. In addition there are internal audit efficiency and output measured. Quality measures are less common. Stakeholders, scope and usage of performance measurement are related to various organizational characteristics. Many respondents have declared that in future will start and formalize performance measurement and based on it they will improve internal audit performance. In future performance measurement will be more focused on internal audit quality and value added.

### **POMIAR WYNIKÓW DZIAŁALNOŚCI W KOMÓRKACH AUDYTU WEWNĘTRZNEGO W POLSCE – AKTUALNY STAN WIEDZY I PERSPEKTYWY ROZWOJU**

*Piotr Bednarek*

Katedra Rachunku Kosztów i Rachunkowości Zarządczej  
Uniwersytet Ekonomiczny we Wrocławiu

**Słowa kluczowe:** audyt wewnętrzny, pomiar wyników, efektywność, skuteczność.

---

\* This paper is a result of the implementation of a research project financed from the funds of the National Science Centre, which have been assigned on the basis of the Decision No. DEC-2011/03/B/HS4/03804.

### Abstrakt

W artykule przedstawiono najważniejsze wyniki badań nad działalnością audytu wewnętrznego w różnych organizacjach działających w Polsce w 2013 roku oraz perspektywy jego rozwoju. Z badania wynika, że wiele komórek audytu wewnętrznego formalnie nie mierzy wyników działalności, a inni robią to, ale tylko nieformalnie. Często nie określa się wyznaczników satysfakcji podstawowych interesariuszy audytu wewnętrznego, nie przekazuje informacji o wynikach nikomu poza pracownikami komórki oraz nie wykorzystuje tych informacji w celu ciągłego doskonalenia. W praktyce najczęściej stosuje się zorientowane na pomiar skuteczności mierniki dotyczące procesów oraz wpływu usług audytu wewnętrznego na działalność organizacji. Na dodatek mierzy się efektywność oraz wyniki audytu wewnętrznego. Mniej powszechne są mierniki dotyczące jakości. Interesariusze, zakres i wykorzystanie pomiaru wyników zależy od różnych cech organizacji. Wielu respondentów zadeklarowało, że w przyszłości rozpocznie i sformalizuje pomiar wyników działalności oraz na tej podstawie będzie poprawiać wyniki audytu wewnętrznego. W przyszłości pomiar w większym stopniu będzie koncentrować się na jakości oraz wartości dodanej audytu wewnętrznego.

## Introduction

Internal audit plays a very important role both in the organizational supervision and in the operating activity of organizations. When effectively implemented, functioning and managed, it is an essential element that supports organizations in achieving their objectives. Organizations with an effective internal audit have a better ability to identify the business activity risk as well as detect inefficient business processes and systems in order to take appropriate remedies and ultimately implement the process of continuous improvement of the institution (BIELIŃSKA-DUSZA p. 67, DUBIS et al. 2013). Thus, in order to gain and retain the confidence of key stakeholders, internal auditors have to measure the results of their activity in order to monitor and evaluate its effectiveness and efficiency, and then introduce necessary changes.

The research of BURNABA et al. (2007) showed that the auditors in different countries used different methods for measuring the results of their work. Based on their research, HILL et al. (2009) found that only few internal audit departments used any form of measuring the impact of their work on the organization, i.e. the value added by an internal audit department. Therefore, they postulated that although the measurement of the added value is not easy, it should be, in their opinion, the ultimate goal for performance measurement in the internal audit departments. Subsequently, questionnaire surveys conducted by CHEN, LIN (2011, p. 49) showed that the value added by an internal audit department should be understood primarily as the contribution of the internal audit to improvement in the functioning of control processes, as well as corporate governance and risk management process, which is perceived by the board, executive management and other stakeholders. They also found that although an effective use of resources was

an important issue for internal auditors, the impact of their work on the organization was crucial for increasing the value added by an internal audit department for the organization.

In order to contribute to this body of knowledge, the aim of this study was to determine the main characteristics of performance measurement in Internal Audit Departments in Poland such as the stakeholders, the scope and the use of measurement results.

### **Research methodology and sample**

Empirical data for this study were obtained from two sources, with the use of a postal and electronic questionnaire on the SurveyMonkey website. The questionnaire consisted of open-ended, semi open-ended and closed-ended questions. As a whole it focusses on internal audit's: performance measurement, self-assessment, effectiveness, performance improvements, rewards and role of audit committees. Only a minor part of it was utilized for the present study. The data were collected from June to September 2013. The study addressed 2077 internal auditors, 1057 from the public finance sector and 1020 from private sector. The internal auditors listed in the current address base of the Ministry of Finance were sent postal questionnaires. The internal auditors who belong to the Polish Chapter of the Institute of Internal Auditors received email with link to the electronic questionnaire.

Ultimately, 500 organizations operating in Poland participated in the survey. Out of them, 43% were government administration entities, 39% local government entities and their organizational units, while private companies accounted for 9%. Demographic data were not provided by 9% of the respondents. As a result, the response rate for the entities from the public finance sector alone amounted to nearly 40%. The study involved 23 types of entities from the public finance sector with different tasks and organizational and legal forms. This group may include commune offices (19%), district governor's offices (10%), offices of cities with district status (7%), state government budget entities (6%), universities (5%), and ministries (4%). In addition, the sample included also companies from 12 industries, mainly those conducting financial and insurance activities (4%). The respondents included internal auditors (63%), heads of internal audit (24%) and other audit specialists (4%). Service providers accounted for only 0.5% of the respondents.

One-third of the surveyed organizations employed up to 150 people, 41% of them were organizations employing from 151 to 1200 people, while 16% employed over 1200 people. Primarily medium-sized and large entities took part in the survey. Only one quarter of them had annual costs or expenses at a level lower than PLN 50 million. In the case of 22% of the respondents, this

level was PLN 51–200 million. 26% of them exceeded the level of PLN 200 million in terms of costs or expenses. One in five of the internal audit departments surveyed<sup>1</sup> have been operating for more than 10 years. Half of the respondents have been working in a given organization for a period from 6 to 10 years. 19% of the respondents worked for no longer than 5 years. Audit micro-departments (up to 2 full-time auditors) constituted the most numerous group covered by the survey (69%). Small departments (from 2 to 5 full-time auditors) accounted for 10%, while big departments (over 5 full-time auditors) – for 9%. Thanks to a large number of the organizations that participated in the survey and their variety, it can be concluded that the survey shows the picture of the current state of the internal audit in Poland in 2013.

### Stakeholders in internal audit performance measurements

Practice advisories for internal auditors (DUBIS et al. 2013) recommend identifying the major internal and external stakeholders, who may directly or indirectly rely on the work of the internal audit, to whom it can bring benefits, or who support internal audit activities. As seen in Figure 1, the results of measurement of the internal audit performance are provided mainly to internal stakeholders, as expected. This group includes audit committees, executive management, employees or heads of internal audit in a parent entity or a capital group.

A detailed analysis of the results of the survey showed that all the managers of the internal audit departments covered by the survey, who

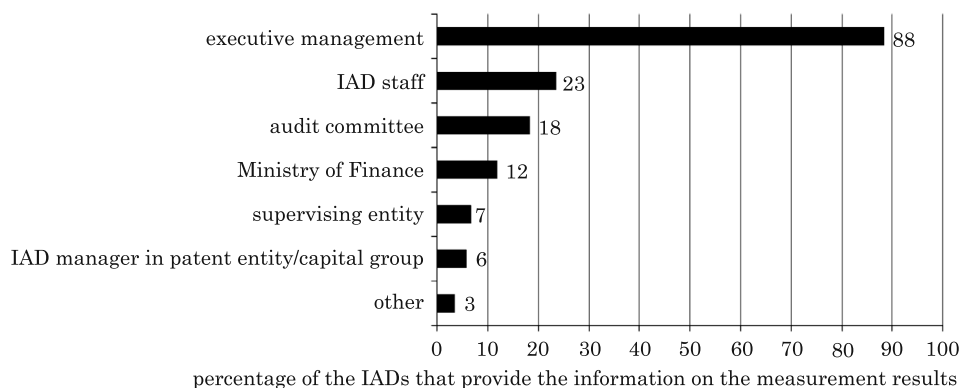


Fig. 1. Stakeholders in internal audit performance measurements

Source: own study based on the survey results.

<sup>1</sup> The term „internal audit unit” (abbreviation: IAU) is used in relation to independent internal audit positions, units composed of multiple persons, and external service providers.

participated in meetings of audit committees, provided the results of internal audit performance measurements to the internal audit committee. Thus, as expected, the audit committee, if established, always plays the role of the main stakeholder in internal audit activities. Members of the executive management are treated a bit differently. Although the executive management is indicated as the primary stakeholder most often, 12% of the internal audit departments, which measure the results, do not send information about the internal audit performance to them, but directly to the head of the internal audit unit of the parent entity, the capital group or the supervising entity.

From the interpretation of the Standard 1110 it appears that the heads of internal audit should functionally report to the board, which means that they must inform the audit committee about the results of their work, but there is no such obligation in towards the executive management. However, in 84% of the organizations, in which audit committees are established, the measurement results are provided not only to the board but also to the executive management. These data confirm the observations made by Hill, et al. (2009), which may indicate how acceptance and good relations with the executive management are important for internal auditors.

84% of IADs in the government administration and 9% of IADs in local governments indicated the Ministry of Finance<sup>2</sup> or a supervising entity as their external stakeholders. Other answers were the department of finance, management control coordinator, quality manager or quality management unit, as well as the Supreme Chamber of Control. In addition, some auditors from the private sector indicated chartered accountants. Finally, 8% of the IADs, which measure the results, do not provide such information to anyone. These are government administration units and local government units. Additionally, the determinants for the satisfaction of the audit committee were not defined at all in 18% of IADs, while the determinants for the satisfaction of the executive management were not specified in 13% of them.

## **The scope of the internal audit performance measurements**

Measuring internal audit performance systematically is essential for determining whether the internal audit achieves its objectives in accordance with best practices and standards. The scope of measurements can be defined as the

---

<sup>2</sup> Every year, the Public Finance Audit Sector Department at the Ministry of Finance prepares a report on the functioning of the internal audit and the management control in units of the public finance, as well as a report entitled „Internal audit benchmarking in units of the public finance sector“. However, these reports are prepared only on the basis of information obtained from government administration units.

number and type of performance measures. However, in the first turn, internal auditors answered the question whether they measure the performance at all. In Poland, only 72% of IADs use performance measures, but 8% of them do it informally. This result is very similar to that obtained by HILL et al. (2009), who analysed organizations of various sizes in different industries in Austin, Texas. From their studies it appears that 71% of internal audit departments established performance measures. A detailed analysis of the answers obtained revealed that in Poland the performance is measured by 76% of IADs with 0-2 full-time auditors, 92% with 2-5 full-time auditors, 89% with more than 5 full-time auditors, while only 21% of the respondents did not provide any information about the employment. These data are partly confirmed by the results of the statistical analysis carried out by HILL et al. (2009), which revealed that large IADs were more likely to measure the performance than the small ones. On the other hand, the fact that 12% of IADs in Poland declare that in the future they will develop formal performance measures can be assessed positively. This is more than in other countries, as shown by the results obtained by HILL et al. (2012), where only 7% of the respondents had such intentions.

### **The number of the performance measures used**

Figure 2 shows the number of the internal audit performance measures used. 72% of the IADs, which measure the performance, use from two to six performance measures. Most often only 5 performance measures are used. Only 20% of the IADs, which measure the performance, use more than 7 measures. In turn, 8% of the IADs, which measure the performance, use only 1 measure for this purpose.

A more thorough analysis showed, as expected, that there were significant differences in this regard between various organizations. On average, the highest number of measures is used by the private sector organizations ( $\bar{X}$  6.3), slightly less – by government administration units ( $\bar{X}$  5.3), while the least – by local government units ( $\bar{X}$  4.5). The larger the internal audit unit, the more performance measures it uses:  $\bar{X}$  4.8 – IAU with 0-2 full-time auditors,  $\bar{X}$  5,0 – IAU with over 2 but less than 5 full-time auditors,  $\bar{X}$  6,8 – IAU with over 5 full-time auditors. In the private sector, listed companies use more measure of the internal audit performance ( $\bar{X}$  7.2) than those not listed on the stock exchange ( $\bar{X}$  4.7). In addition, parent companies in capital groups use more performance measures ( $\bar{X}$  8.4) than their daughter companies ( $\bar{X}$  6.18) or autonomous entities ( $\bar{X}$  6.16).

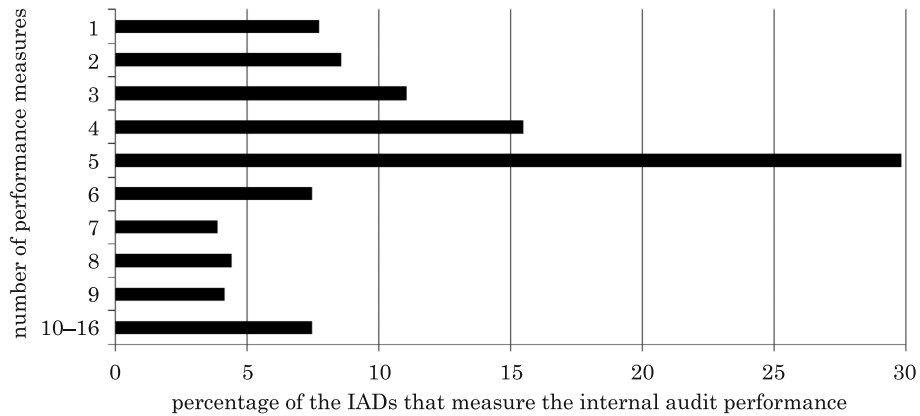


Fig. 2. The number of the internal audit performance measures used

Source: as under Fig. 1.

### Types of performance measures

Table 1 shows the most commonly used types of internal audit performance measures. It can be clearly seen that half of the most commonly used performance measures, as in the studies by CHEN, LIN (2011)<sup>3</sup>, are focused on measuring the effectiveness and impact of internal audit services on the organization. This group of measures include: assessment of the degree of the audit plan execution, acceptance and implementation of recommendations, ensuring the rationality of the management control, auditees satisfaction as measured by surveys.

Table 1  
Types of performance measures most commonly used by the internal audit departments that measure the performance

Measure	IAU [%]
Degree of completion of the annual audit plan	81
Ratio of the time of assurance and consulting tasks to the total working time	50
Timeliness in the execution of tasks	46
Assurance as to the rationality of the management control	44
Ratio of the implemented recommendations to the accepted recommendations	43
The number of significant audit findings	38
The level of satisfaction of the audited with the audit performance as measured with the questionnaire surveys	38
Ratio of the planned number of hours for execution of the assurance or consulting tasks to the actual number of hours spent for these tasks	32

Source: as under Fig. 1.

<sup>3</sup> Performed on a sample of 13,582 internal auditors from 107 countries.

In addition, the group of the most commonly used performance measures, as in the studies by HILL et al. (2012), included two measures oriented at the measuring efficiency of the working time utilisation. These are: the percentage of the time spent on executing the assurance and consulting services in relation to the total working time and the ratio of the planned number of hours for executing the assurance and consulting services to the actual number of hours spent on them. Furthermore, the observations made by HILL et al. (2009) that internal auditors are very reluctant to measure the effectiveness of their work using financial measures, such as the cost of auditor's working hour, prove to be true.

When comparing the results obtained with the result of the studies by BURNABA et al. (2007, pp. 197–199), it can be seen that internal audit performance in Poland is still very frequently measured by the number of significant audit findings. However, the estimation of savings and the improvements resulting from the implementation of recommendations are the measures that are not as common as it appeared from the findings of BURNABA et al. (2007, pp. 197–199).

Every second internal auditor, who measures the internal audit performance, focuses on the timeliness in the task execution. Whereas, in the studies by CHEN, LIN (2011) this factor is only at the seventh position among the performance measure most commonly used around the world.

When asked about the five most important performance measures that could be used on the basis of available information, the internal auditors generally pointed to the same measures that were included in Table 1. The measures, which are perceived as important, but currently are used more rarely, are also noteworthy. They include: the results of an external quality assessments, the satisfaction of the audit committee and/or executive management from the results of the internal audit activity, costs savings/avoidance of potential costs and improvements as a result of the implementation of recommendations, the number of requests from the executive management to perform assurance and consulting services, or the activeness in providing information about organizational governance, risk and control. Apart from the last one, all these were in the first five most commonly used performance measures worldwide according to BURNABA et al. (2007), CHEN, LIN (2011), HILL et al. (2012). Hence, it can be concluded that internal auditors notice that measuring the quality and the value added by the internal audit department are more important than it results from the current practice, but for some reasons such measurements have not been done sufficiently so far.



## **The use of internal audit performance measurements**

Performance measurements can be carried out in a continuous or discrete way. Standard 1311 (definition of the internal audit, 2012, p. 44) requires that internal auditors should use performance measures to monitor activities of internal audit departments on a current basis and should conduct periodical self-assessments. Periodic assessments may cover both the value added for the organization and the measurement system itself in terms of its adequacy and timeliness (*Definicja audytu wewnętrznego.*, 2012, p. 132). From this study it appears that only 20% of IADs assess the performance measures on a current basis, while 33% of IADs do this as a part of a periodic self-assessment conducted usually once a year.

In addition, the studies by HILL et al. (2012) suggested that successful internal assessments could provide measurable improvements in internal audit processes, which can be identified, implemented, reported and monitored in terms of their implementation, use and results. This study shows that 77% of the IADs, which measure performance, use the information on their performance for making relevant improvements in the internal audit activity, while 16% of such IADs are planning to start such a process in the future.

## **Conclusions**

This study indicates that 36% of IADs in Poland do not have formally developed performance measures. Although 72% of IADs measure their performance, 8% of IADs do this in an informal way. The determinants for the satisfaction of the audit committee were not defined in 18% of IADs, while the determinants for the satisfaction of the executive management were not specified in 13% of them. 8% of IADs do not provide such information to anyone other than the audit staff, and only 77% of the IADs, which measure the performance, use it to improve the internal audit activity.

In general, the most complex performance measurement systems are in place in large IADs functioning in parent companies and capital groups listed on the stock exchange, while the simplest ones are typical of single-person internal audit departments in local government entities or in companies that are not listed on the stock exchange. Furthermore, the most commonly used measures, in contrast to the results obtained by HILL et al. (2009), are the measures oriented at measuring effectiveness, which concern the impact of internal audit services on the organization and audit processes. The measures oriented at measuring the audit effectiveness and the audit outcomes are also

used quite frequently. On the other hand, the quality measures are not used as often as in the USA (HILL et al. 2009).

A different scope of the performance measures used in Poland as compared with the scope resulting from the earlier studies may result from three different reasons. Firstly, the internal audit practice may have changed. Seven years have already passed from the first survey. Secondly, the structure of the organizations that took part in these surveys was different, so the auditing practice in these organizations could also vary. Thirdly, there may be significant differences in the internal audit practices in individual countries, which result not only from cultural differences. In the study conducted by BURNABA et al. (2007), Poland was in one group with 12 other countries.

It is a positive fact that 12% of the IADs declared the will to develop formal performance measures in the future, while 14% of them, based on the results of measurement, plan to make relevant changes in the internal audit activity. The future measurements will focus more on the quality and added value of the internal audit.

This descriptive analysis of the condition and the development prospects does not give answers to some important questions. For example, it would be good to know what the relationship between the scope of the internal audit performance measurements and the specific character of a given unit from the public finance sector is. In addition, a question could also be raised, to what extent the motivation systems for internal auditors are associated with their performance. Although a statistical analysis aimed at testing relevant hypotheses has already been performed, these results will be published in (BEDNAREK 2014) due to the volume restrictions for this paper.

Finally, it must be emphasized that such a questionnaire survey has its limitations. The price for obtaining a general picture based on a large number of organizations is that the data are captured only in a single moment of time. It is not possible to record the learning process and its internal dynamics for each individual organization. In addition, the information quickly becomes outdated when carrying out the proper statistical analysis, which is often time-consuming. Nevertheless, as long as we are aware of these limitations, a cross-sectional analysis can make the research results statistically significant and universal, which cannot be achieved in any other way.

Translated by PIOTR BEDNAREK and GRZEGORZ KOŁCAN

Accepted for print 27.06.2014

## References

BEDNAREK P. 2014. *Samoocena i pomiar wyników działalności audytu wewnętrznego w jednostkach sektora finansów publicznych* (w opracowaniu).

- BIELIŃSKA-DUSZA E. 2011. *Audyty wewnętrzny w ocenie badań empirycznych*. In: *Audyty wewnętrzny w doskonaleniu instytucji*. Ed. M. Lisiński. PWE, Warszawa.
- BURNABY P.A., ABDOLMOHAMMADI M.J., HASS S., MELVILLE R., ALLEGRIANI M., D'ONZA G., PAAPE L., SARENS G., MARAIS M.M., SADLER E., FOURIE H., COOPER B.J., LEUNG P., TAYLOR W.L. 2009. *A Global Summary of the Common Body of Knowledge 2006*. The Institute of Internal Auditors Research Foundation, Altamonte Springs, Florida.
- CHEN J.F., LIN W.Y. 2011. *Measuring Internal Auditing's Value*. Report III. *The IIA's Global Internal Audit Survey: A Component of the CBOOK Study*. The Institute of Internal Auditors Research Foundation, Altamonte Springs, Florida.
- Definicja audytu wewnętrznego, kodeks etyki oraz międzynarodowe standardy praktyki zawodowej audytu wewnętrznego*. 2012. Tłumaczenie na język polski. The Institute of Internal Auditors Research Foundation, Altamonte Springs, Florida.
- DUBIS G.S., JAIN P., MANCHANDA A., THAKKAR R. 2012. *Measuring Internal Audit Effectiveness and Efficiency, IPPF – Practice Guide*. The Institute of Internal Auditors. [www.theiia.org/guidance](http://www.theiia.org/guidance) (access: 16.11.2013).
- HILL K.L., HIGHFUL T., BACA K.G., DRIVER S., GARNER M., GOODSON S., MACCABE D.J., YOUNG H.S. 2009. *Performance Measures for Internal Audit Functions: A Research Project. The Institute of Internal Auditors Austin Chapter 2008-2009 Research Project*. The Institute of Internal Auditors Research Foundation, Altamonte Springs, Florida.
- HILL K.L., ADAMSON D.L., CONTELLA A., FISH C.G., GARNER M., GOODSON S., MACCABE D.J. 2012. *Best Practices in Implementing Quality Assurance & Improvement Programs*, The Austin Chapter Research Committee, <https://na.theiia.org/iiarf/Public%20Documents/2012%20Research%20Report%20-%20Austin%20Chapter.pdf> (access: 16.11.2013).