

# THE EMOTIONAL ASPECT OF AN INTERNAL AUDIT

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## Abstract

**Purpose:** The aim of the article is to demonstrate the complexity of the audit process, in particular to analyze the emotional dimension of the internal audit, mainly from the perspective of the auditee. Moreover, the article shows the influence of human aspect on the course and results of the audit process. The indicated areas deserve scientific attention, as they are important in the area of auditing, the more so as the analysis of the available literature on the subject shows that they are still treated marginally.

**Methodology:** To achieve the research goals stated for this article, two research procedures were chosen and implemented. Normative documents and literature review, also development of pilot research to demonstrate the relative existence of the issue and the need for further in-depth research. Moreover, the author's experience as an auditor turned out to be valuable for the considerations presented in the article

**Findings:** An internal audit understood, as a tool for improving processes or more broadly monitored systems and /or products, is not just a matter of procedural dimension and complex documentation, but also an equally important human aspect. This is often marginal or even neglected in practice. Also in the literature on the subject, the issue of interpersonal relations related to the audit process is an area that is relatively rarely taken up. This is evident even more so from the perspective of the auditee and their feelings, which significantly affect the whole process, especially the final result of the audit. Thus, the article significantly demonstrates the importance of typically human aspects of an audit

**Implications for practice:** Demonstration the complexity of the internal audit and emphasizing the importance of the human factor in the course of the internal audit process and obtained the final result is to make all parties participating in any type of audit aware of the importance of, for example, setting, feelings and other psychological factors that make up the multidimensionality of the process and thus determine its effectiveness and efficiency.

**Originality/value:** The article provides a broad and thus quite unusual view of the internal audit process, and gives a comprehensive perspective of management of this process and in particular the opportunity to increase its efficiency and effectiveness.

**Keywords:** internal audit, human factor, emotional aspect

**Paper type:** Conceptual paper

## 1. Introduction

The development of international markets and the related expansion of large, global entities, characterized by extensive and diverse business structures, undoubtedly requires the support of normative, unified tools, both in the field of management, operations and supporting processes. This includes, in particular, supervision mechanisms and preventive actions, as well as continuous improvement idea. An internal audit, as this article deals with it, effectively fits into modern business concepts and is a very helpful measure to the evaluation and improvement of the effectiveness of risk management, control, and corporate governance practices (Lélis and Pinheiro: 2012). However, this requires all stakeholders to switch from the so-called traditional approach to the so-called new orientation of an internal audit. In accordance with the guidelines of the Institute of Internal Auditors, both the internal auditor and the auditee are required to understand its multilayered structure and take, its behavioral dimensions, including the perception and factors shaping it (Dittenhofer et al., 2010). The more so because, as research results show, effective stakeholder relationships, defined by: trust, relational satisfaction and relational commitment, are crucial to the internal auditing function's ability to achieve its goals and objectives (D'Onza and Sarrens, 2018).

## 2. An internal audit and its stakeholders

The concept of an audit can be considered in many ways. However, the nature of the concept, regardless of the context of the analysis, and the scope of application or expected results, refers to the normative approach, which states that the audit is: a systematic, independent and documented process of obtaining objective evidence and its assessment to determine the degree of compliance with the audit criteria (ISO 9000:2015). An audit understood in this way is a tool that is primarily to help the organization improve processes and prevent any non-compliance. Therefore, it has mainly a preventive and improving character. However, for this to happen, it should not only be properly planned, but also carried out and undertaken appropriately for the results. This in turn requires the ability to understand the multi-faceted nature of the audit and thus not reduce it, as it often happens, to only a complex dimension documentation. It should be remembered that the complexity of the audit will depend mainly on its type. Both in the literature on the subject and in practice, the distinction between relatively few formalized internal audits, the so-called first-party and external audits, (including second-party audits, on-site and third-party audits), are carried out by independent organizations, such as registration/compliance bodies or government agencies. For the purposes of further consideration, the focus was on the specificity of the internal audit, because it will be discussed in this article.

First of all, it should be realized that the approach to an internal audit evolves over time. The change in the realities of the internal and external environment

means that specialists have already identified the fifth generation of the audit. Each of them is embedded in a given time interval and has a different perception of the essential functions of an internal audit. The latest, fifth generation, embeds the internal audit in the paradigms of the achievements of economic and social sciences, and which exposes the supervisory and advisory function of the tool that applies to the entity's entire operating activities. In addition, as part of changing the philosophy of approach to an internal audit, it is recommended to move away from a typically formal, legal, and instrumental approach to integrated building of the value system in cooperation with all employees of the audited organization (Lisiński, 2011). This perception of the audit requires the correct identification of all its stakeholders and an understanding of the relationships that occur between them in the context of a systemic or comprehensive approach to improving the organization. According to the terminology standard ISO 9000:2015, interested party (stakeholder) is a person or organization who can affect, be affected by, or perceive itself to be affected by a decision or activity. For example it can be: Customers (internal and / or external), owners, people in an organization, providers (for example: producer, distributor, retailer, or vendor of a product or a service), bankers, regulators, unions, partners or society that can include competitors or opposing pressure groups (ISO 9000:2015). However, in the case of an internal audit, the internal environment of the audited organization, its strategy, organizational culture, or forms of communication seem to be the most important for its course and results. The effectiveness of the latter variable is particularly important in building bilaterally beneficial relationships between directly interested parties, this is the internal auditor and the auditee, otherwise defined as the audit client. The quality of these relationships translates into values generated in the organization and delivered, both to its external and internal stakeholders.

### **3. The essence of the relationship between the internal auditor and auditee**

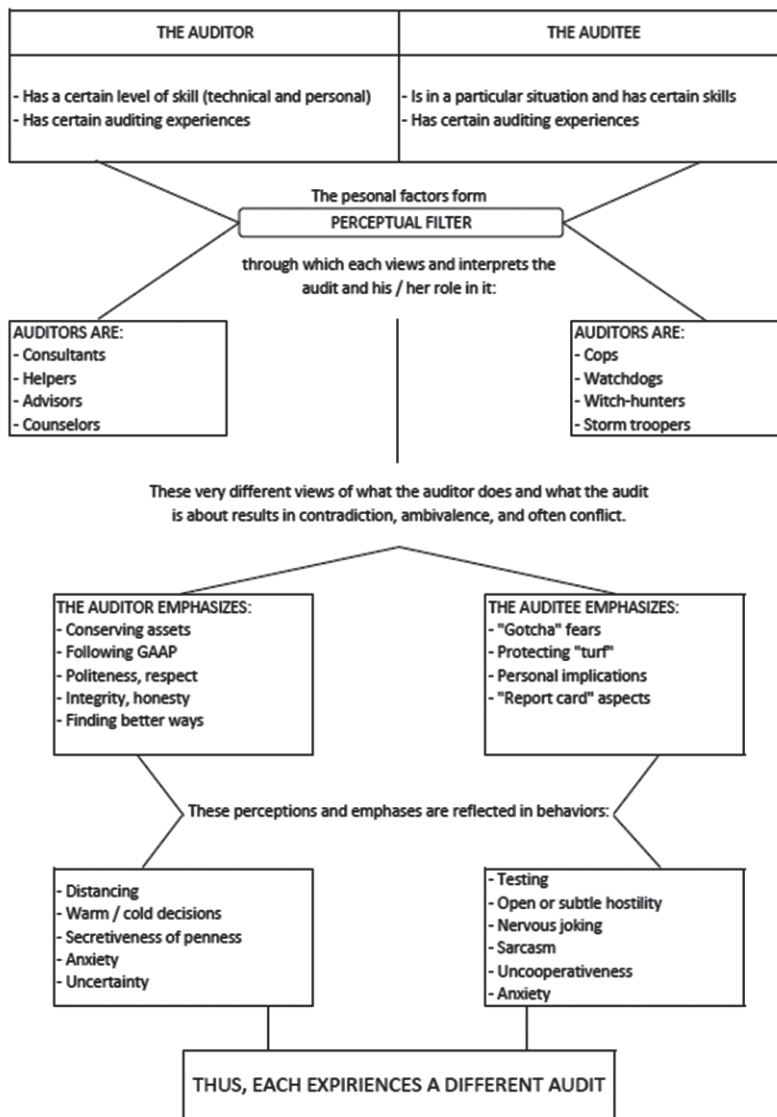
For years, an internal audit was seen as an unpleasant obligation, related to the need to assess colleagues from the same organization. Such an image affected the unfavorable attitude of both parties and therefore not always the expected results in the form of identifying areas that need improvement. However, with subsequent amendments to the ISO 9000 series of standards - Quality management systems, to which the integrated ISO 19011 standard - Guidelines for auditing management systems, is also subject, the approach to the role of internal auditor has changed and awareness of the multidimensionality of the audit and its possible benefits has increased. The latest edition of the ISO 19011 standard from 2018, in point 7, emphasizes the issue of the importance of the desired competence of auditors in the field of personal behavior and that is para. 7.2.2. and communication skills

with managers, professionals, peers, customers, and other relevant interested parties in para. 7.2.4. In addition, under Annex A, clause A.1, different audit methods were distinguished depending on the extent of involvement between the auditor and the auditee (ISO 19011:2018). And finally, the existence and rank of the relationship between the auditor and the auditee was recognized.

This is fully justified, because regardless of the type of audit, interactions between different parties are an integral and very important part. Therefore, the level of competence of auditors, not only hard but also those soft, often underestimated, is one of the key variables determining the success of the audit. Hence, the internal audit is increasingly becoming part of the theory of business psychology and behavioral economics (Królak et al., 2018) and in this context is undertaken in particular in world literature on the subject of the transformation of an internal audit from a typical command and control to learning, among others Collins wrote. As part of the new way of thinking, he wrote that in today's business formal controls are less valuable and effective than informal ones, which include intangible attributes such as ethics and values, corporate culture, trust, teamwork, open communication and professionalism (Collins, 1999). In addition, Collins recommends switching from the traditional auditing model, which relies on the judgment process, including transaction analysis based on the examination of records and one-on-one interviews with key players involved in the function under review, to a Control Self-Assessment (CSA) technique audit approach. CSA, in which auditors guide participants through process analysis, is a more innovative, interactive learning based model.

The multidimensionality of an audit, understood as the interdependence of the psychosocial, organizational and structural levels, has also become the basic premise of the book „Roles and Relationships in Internal Auditing” by Wood and Wilson (Wood and Wilson, 1989). These authors, conducting many years of research, noticed the problem of serious perception gaps in auditor-auditee relations. Table 1 presents the main differences in the perception of the audit by auditors and auditees.

A different understanding of the same audit and different expectations about the audit's outcome and each other's behavior are factors that significantly disrupt the liquidity and final value of the internal audit process, which also lead to unnecessary conflicts. For this reason, it is so important at various levels to be aware of relationships as a part of internal audits and the need to improve them in relation to the attitudes of both parties, auditors who are required to have emotional and social intelligence (Dittenhofer et al., 2010), as well as auditees, who by demonstrating an open and active attitude, have the task of supporting the implemented process and participate in the value generated.



**Table 1.** Perception gaps: The audit as seen by auditor and auditee

Source: Wood and Wilson, 1989.

#### 4. An internal audit from the auditor's perspective

The influence of the auditor on the course of the process and final result of the internal audit is a relatively well-developed issue in literature. However, these are analyses in the field of technical skill and cognitive ability. As the research results show, approximately one-third of the difference between top and average performance is due to this type of competence. Whereas the remaining two-thirds

is attributed to emotional competence, which is still underestimated by many (The Institute of Internal Auditors, 2019).

International Standards of Professional Practice, guidelines of system standards, codes of ethics, and guides are examples of numerous types of studies that define the desired characteristics of an internal auditor. However, their own in-depth analysis indicates the lack or marginal treatment of the issue of emotions and their significance, even in providing such basic audit features as objectivity, independence or decision-making.

Emotions are most commonly understood as reactions that are directed to a specific target (e.g. an auditee) and go beyond simple positives or negatives (e.g. anger, joy). In addition, one can distinguish the complementary term, namely mood, that generally positive or negative affective states are not directed at any specific trigger event. Research has shown that these variables clearly affect audit results. Most often occurring in a negative correlation, as many audit judgement errors and improper decisions are caused by the auditor's moods and emotions (Bhattacharjee and Moreno, 2013). Also, the nature and extent of the auditor's cognitive processing is influenced by individuals emotions and feelings. According to the main principles, positive feelings have a negative effect on its quality, and the positive effects lead to more systematic processing. Also a very important issue of the auditor's skillful, balanced response to risky situations, for example, a lack of consent or satisfaction of the auditee with the results of the audit (Albarracin and Johnson, 2019). Therefore, the auditor must develop high emotional intelligence as a key factor in dealing with different types of pressures in an audit context. Both internal pressure related to, for example, time and budget, as well as external pressure, mainly regarding the expectations and communication with the auditees and other interested parties, can lead to occupational stress and unnecessary conflict situations.

In addition, it should be remembered that there is another dimension of difficult or not very effective relationships. Dysfunctional consequences affect the level of job satisfaction, which leads to the auditor's frustration and the lack of commitment to the performed process of an internal audit.

These identified, significant relationships indicate a high need for emotional competence training for internal auditors. Dissemination of awareness of the fact that behavioral concepts in auditing are a major importance to the successful discharge of the auditor's responsibility is also needed (Blakeney et al., 1976).

### **5. The behavioral aspect of an audit – the auditee perception**

Most of the available scientific studies and practical guides are oriented solely towards auditors and guidelines for them in increasing the efficiency and effectiveness of the implemented process. Of course, there is no doubt that the broadly understood competences of the auditor have a significant contribution

to the result obtained from the audit. Although, as presented earlier, the audit is a two-sided, often asymmetrical, relationship. Therefore skipping the behavioral aspect of the auditee is a significant mistake. All the more so some studies point out that the internal auditing function is effective when it responds to auditees' needs (Ziegenfuss, 2000).

When analyzing the human side of internal auditing, it should be emphasized and remembered that auditees are more than only organizational employees. This is one of many elements that make up an organization. They are above all living, feeling individuals, invested in their work to a greater or lesser extent, dependent upon it for self-esteem and prestige as well as material rewards (Wood and Wilson, 1989). Therefore, the audit is not only a formal duty, (part of the job), but it is an experience. It generates negative emotions, (such as fear, stress, or embarrassment), but also positive emotions, associated with the hope of improving the implemented processes or even increasing interest in your "slice" by colleagues from work, especially superiors.

A more rational, balanced approach to extracting information that is based on trust and respect, requires the ability to adjust the structure of the audit to the type of personality being audited. This is most often determined based on the DISC Behavior Theory including: dominance, inducement, submission, and compliance. Therefore, it is recommended to identify the superior characteristics of the auditee and on the basis of the built profile, choose the optimal audit methods that will increase the efficiency and effectiveness of the internal audit (Khan, 2014). And this requires a lot of intellectual maturity of both the internal auditor and the management board commissioning the audit tests of their organization.

In addition, the results of the conducted research clearly show that behaviors of the auditees also have a significant impact on the auditors and thus their work. So dependencies, both positive and negative, occur in both directions of the existing relationship. Therefore, one cannot focus solely on internal auditors and their multi-faceted competences, because such a narrow perception reduces the broadly understood quality of the audit. In addition this is evidenced by the results of research in the field of the phenomenon called Audit Quality Threatening Behaviors (AQTB). This includes a biasing sample selection, reductions in sample sizes, or even accepting weak auditee explanations and an over-reliance on audit client work (Sweeney and Pierce, 2015). Also, this includes conclusions from the impact analysis of the perceived ability of auditees to influence auditor controls and audit team behavior- through, for example, delaying the availability of information and selecting samples in advance for auditors (Sweeney and Pierce, 2015). Awareness and understanding of the importance of the role, feelings, and behavior of the auditee, allow the formulation of recommendations for auditors, improving the processes that make up the internal audit and the obtained measurable results. Namely, auditors must remember that the threat of evaluation

and its impact on self-esteem is both potentially and actually significant for audited personnel. Those audited very often experience auditors as auditing not only procedures or a system of the unit, but also themselves as professionals and even as a contract of a moral system. So internal auditors have to tend to the emotional climate of an internal audit. In addition, auditees don't always understand the need to corroborate findings, because they perceive it as an expression of distrust. Auditees don't always understand the rationale of reporting found and corrected nonconformities. From their perspective, it is a kind of undermining of their current competencies. So auditors should always explain the need for evaluating organization wide patterns in order to monitor and improve changes in policy and key procedures. And, finally, internal auditing could be a better advocate for itself. The perception of the audit is still mostly negative. It should, therefore, with the support of educational, political, and research efforts of the professional association, try to change this image, associated mainly with stress control and the auditor-hunter, whose only goal is to find guilt for all failures in the organization (Wood and Wilson, 1989).

The presented perspective of the auditee and cited conclusions sum up a valuable contribution in the still under-explored area of auditee–audit team interactions.

## **6. The emotional dimension of an internal audit in a production company – pilot research**

Awareness of the significance of the taken issue along with the identified empirical research gap in the literature on the subject, in particular the national one, has influenced the decision to conduct a preliminary research study. The limitation of this research, can be a small number of respondents, the more that they are from one company. Therefore it should be considered that this study is a kind of illustrative, piloting, confirming the legitimacy and indicating the direction of relevant research in the discussed field (Żarnowska, 2019). The research was conducted in March 2019 in a large international production company. The respondents were purposely selected by the Logistics Department employees who, using an electronic questionnaire form, answered questions related to the perception of an internal audit from the perspective of their dominant feelings as the party subjected to the audit activities. After applying the filter in the record, which was supposed to guarantee testing only samples with a specific audit experience, the final group of respondents consisted of 11 people, diversified in terms of gender, age, and position. The questionnaire consisted of eight questions, subordinated to the main research problem related to the identification of the types of emotions felt by auditees. As a preliminary question, respondents were asked to answer their understanding of the concept of an audit. Over 63% said it was an independent and documented process of obtaining evidence and its



assessment. The remaining respondents perceive the audit as a specific assessment of the company, aimed at supervising and improving processes. Interestingly, no one identified the internal audit with control, aimed at finding errors and, consequently, identifying and punishing those responsible for them. This result pointed to the correct understanding of the essence of the audit, in line with the assumptions of international standards in the field of management systems, which testifies to the full awareness of the role of the audit as a tool supporting process management. Information about the planned audit most often comes from the shift manager or direct superior. Therefore, the planned activities are public, which allows the audited to prepare properly, both from a substantive and an emotional side. Despite this, the answers to the next questions confirm the problem identified in the theoretical part of the article, namely the most frequently indicated type of emotion accompanying the internal audit is nervousness, up to 64% of the total answers. In addition, the attitudes observed in the audited colleagues also have evident negative coloring, because there is usually a sense of indifference and aversion to the auditor, despite the fact that, based on the used semantic differential, he was assessed as a competent, objective and cultural person. At the end of the study, the audited identified key, perceived barriers affecting the course, results and atmosphere of the internal audit. This is a matter of the lack of willingness to cooperate with the auditor, which may result from the lack of awareness of expectations directed towards them during the audit. Also the perception of the auditor as an overzealous, too inquisitive and at the same time, uncommunicative, and impatient person may be seen as a barrier.

## **7. Conclusions and improvement tips**

The results of the presented pilot research, which is only a very general illustration of the analyzed topic, confirmed the importance of the problem and thus indicated the need to undertake more detailed multi-faceted studies. Also it should be taken into account the psychic, personal and interpersonal aspects of the internal auditor's work. The results of such research will certainly be a valuable complement to the already developed guidelines, which improve relations within audits, including, in particular, those internal ones.

Keys to the behavioral success of internal audits refer to the assumption that all interested parties of an audit must benefit from the relationship, which must be mutually pleasant, and based on full commitment and active cooperation. In addition, the conditions for the existence of an interaction of purposes or interests, mutual openness, trust, and respect based on broadly understood competences and responsibility must be met. They all must also be met with the support of adequate means for conducting at high-quality, two-sided relationship (Dittenhofer et al., 2010). Key importance is attributed to trust as an inherent part of the audit, explicitly built into the audit risk model (Sim and Vucetic, 2018). In addition, as

a good audit practice, the U.S. Department of Homeland Security recommends that auditors and the audited believe that audits make things better. It is not just a job, it is a real possibility to add value to something greater than themselves. Such awareness supported by the ability to be responsive and engaged undoubtedly stimulates audit participants and thus increases its measurable results. In addition, the guidelines emphasize that there is no good internal audit without detailed, well-written management responses for a final audit report and follow-up. This element should be treated as an expression of serious consideration of audit activities and a proof for sustained leadership commitment, as well as a kind of good roadmap for recommendation closure and the resolution of disagreements (Crumpacker, 2019).

Skillful communication of both parties is also key. The condition of its effectiveness is the interaction that must take place at every stage of the audit life cycle, from the preparatory phase, through the audit, to post-audit activities. The channels and communication media used for interviews or even negotiations between the internal auditor and the auditee negotiations must be tailored to the specifics of a given audit. So it needs to be tailored to the broadly understood competences, including those of the participants' emotional maturity, organizational culture, and the needs and expectations of parties interested in the audit and its results (Wronka, 2016). The communication process is particularly important in the event of non-compliance. The auditor, apart from informing the auditee about any deviations from the adopted criteria, should explain the irregularity in such a way that the auditee has no doubts and can take optimal corrective and preventive actions. For this reason, the condition sine qua non to obtain the best possible results is flexibility (often referred to as professional skepticism), correctly understood independence, diplomacy, and high emotional intelligence of the internal auditor who must conduct himself in a way that encourages auditees to perceive him as a trusted counselor, an agent of positive change. Internal auditors must act in such a way as to be valued insiders, not outsiders who cause others to put up their guard and resist constructive comments, which are key input to the process of continuous improvement of their own organization (Berry and Kinder, 2007).

To sum up, despite the availability of many studies containing tips to improve the internal audit process, each organization should develop its individual approach and methodology with particular emphasis on human aspects in all activities constituting the life cycle of an internal audit.

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