

A COMPARATIVE REVIEW OF THE DIFFERENCE BETWEEN IN HOUSE AND EXTERNAL AUDITORS

Neha Verma
MBA scholar
Uttaranchal University

ABSTRACT

In the recent years, there has been an expanding enthusiasm for inside reviewing. The interior review work (IAF) developed as response to different effect factors that are ineffectively dissected, nonetheless. The motivation behind this paper is along these lines (1) to research inside evaluating and its capacity toward the finish of the twentieth century; (2) to analyze the inward and outside improvements that influence IAF; and (3) to depict the new comprehension of inner examining. In view of the definition for inward reviewing of the Institute of Internal Auditors (IIA) from 1999, the creators broke down the impacts of six streams with effect on the IAF which were distinguished in writing. These are corporate administration, association and the executives as inside components, and data innovation, guidelines and outer inspectors as outside elements. Subsequently, another comprehension for inside reviewing was created. The key finding is that the decent variety of the progressions increased the prerequisites for and extended the job of inside reviewers.

Keywords: internal auditing, internal audit function, audit development, impact factors, corporate governance, Institute of Internal Auditors

INTRODUCTION

Internal vs. External

Interior auditors work inside an association and report to its review board of trustees and additionally executives. They help to plan the organization's sorting out frameworks and help create explicit hazard the executives approaches. They likewise guarantee that all arrangements actualized for hazard the board are working successfully. Crafted by the inner inspector will in general be persistent and dependent on the interior control frameworks of a business of any size.

Outside examiners are autonomous of the association they are inspecting. They report to the organization's investors. They give their accomplished conclusion on the honesty of the organization's budget reports and perform chip away at a test premise to screen frameworks set up.

The Differences

There are three key contrasts in the exercises of inside and outer examiners. Each is talked about top to bottom underneath:

Appointment

Outer reviewers are delegated by the investors of an organization, in spite of the fact that this normally comes through talk with chiefs. Outer reviewers must be designated from an alternate organization autonomous of their own while inward inspectors are typically representatives of the association. Keeping customers glad as an outside examiner is regularly more troublesome than inside as you definitely know everyone around you in the second example.

Aims

The goals for an outer examiner are normally characterized by rule while the board will set the destinations for inner reviews. Outer evaluators by and large have free rule to look at and survey each part of the framework while the executives can pinpoint and feature certain regions they need inner inspectors to concentrate on. There are different kinds of inward review.

Objective

Outside reviewers are dependable to the proprietors of the organization which could be anyone from its proprietors to the investors to the administration or overall population. Inward evaluators are dependable exclusively to the organization's senior administration.

MEANING OF INTERNAL AUDIT



By Internal Audit, we imply that an impartial and methodical examination work, performed inside the business association, with the reason for exploring the everyday exercises of the business and giving essential recommendations to the improvement.

Inside review plays out a wide range of exercises, for example,

- Evaluating the bookkeeping and inside control framework.
- Examining the routine operational exercises.
- Physical confirmation of stock at standard interims.
- Analysing monetary and non-budgetary data of the association.

DEFINITION OF EXTERNAL AUDIT

The periodic, systematic and independent examination of the financial statements of the company conducted by a third party for specific purposes, as required by statute is known as External Audit. The main aim of external audit to publicly express an opinion on:

- The truthfulness and fairness of the financial statement of the company
- The accounting records are complete in all respects and prepared as per the policies outlined by GAAP (Generally Accepted Accounting Principles) or not.
- All material facts are disclosed in the annual accounts.

ROLE OF THE INTERNAL AUDITOR:

Historical Setting For an adequate understanding of the contemporary role of the internal auditor, it is helpful to examine the historical development of internal auditing. Around the 1940s, the primary functions of internal auditing were to maintain an organization's internal accounting control and to serve as a psychological deterrent against wrongdoing. However, over the next twenty years in line with the trend toward operational auditing activities, internal auditors began to downplay their role in internal accounting control. Instead, internal auditors began to emphasize their active contribution to operational effectiveness and efficiency in response to the increasing operational complexity of most organizations.

BACKGROUND

Background investigations and reference checks are employers' principal means of securing information about potential hires from sources other than the applicants themselves. A background investigation generally involves determining whether an applicant may be unqualified for a position due to a record of criminal conviction, motor vehicle violations, poor credit history, or misrepresentation regarding education or work history. A reference check generally involves contacting applicants' former employers, supervisors, co-

workers and educators to verify previous employment and to obtain information about the individual's knowledge, skills, abilities and character.

In a 2018 HR.com report sponsored by the National Association of Background Screeners (NABS), 95 percent of surveyed employers indicated that they use one or more types of employment background screening.

REASONS FOR CONDUCTING AUDITS

The audit agendas for external and internal audits reflect the reasons why audit owners order audits. External audits can be ordered by government agencies for statutory reasons. Sometimes these audits are used to evaluate a company's financial health for the purpose of establishing its credit worthiness. Shareholders or other audit owners can order an external audit to evaluate the fiscal risks associated with misrepresented financial statement data. Internal audits are ordered by audit owners for numerous reasons, but they are usually based on some identified threat or perceived risk to a company's financial health or specific strategic activities. For instance, internal audits are ordered to ferret out suspected fraudulent activities. While external audits are generally done annually, internal audits are conducted at the direction of company managers as needed.

LITERATURE REVIEW

MacLellan (2001) conducted a study that measured the differing perception of tutors and students at a higher education level. The finding of the study indicated that there was a significant difference of perceptions between the two groups. In specific, students perceived that a frequent purpose of the assessment was to make a summative judgement in the form of grading or ranking student performance.

Maclellan, 2001 & Cavanagh et al 2005 contend that the assessment strategy of a particular course has a major impact on student activity. It influences the approach students adopt towards their learning, how much time they spend on their studies, how widely they study the curriculum, and whether they grasp the key concepts of the subject. There is also an evidence of a significant, negative 'backwash' effect (Biggs & Tang, 2007) on student learning and achievement of poorly conceived assessment strategies. Therefore, teachers who neglect paying attention to their assessment practices cannot coordinate students' effort to enhance their academic performance.

Mok (2010) conducted a case study that investigated students' perceptions of the implementation of peer assessment in English speaking classes at junior secondary level. Interview and classroom observation were employed to gather data for the research from two male and two female students. The finding of the study revealed that although the four student participants could see important benefits of peer assessment, such as

facilitating student's thinking development, and they hoped to take the assessment seriously, they felt inadequate about the implementation of the new assessment in their junior secondary English speaking classes.

Alkharusi (2008) planned to examine the relationship between the teachers' assessment practices and students' perceptions of the classroom assessment environment. In the study, 1636 students and 83 teachers participated. The result indicated that students' perceptions of the assessment environment were shaped by student characteristics such as self-efficacy, class contextual features, aggregate perceived assessment environment and self-efficacy levels of the class, and teacher's teaching experience and assessment practices.

DIFFERENCE BETWEEN INTERNAL AND EXTERNAL AUDITS

There are multiple differences between the internal audit and external audit functions, which are as follows:

- Internal auditors are company employees, while external auditors work for an outside audit firm.
- Internal auditors are hired by the company, while external auditors are appointed by a shareholder vote.
- Internal auditors do not have to be CPAs, while a CPA must direct the activities of the external auditors.
- Internal auditors are responsible to management, while external auditors are responsible to the shareholders.
- Internal auditors can issue their findings in any type of report format, while external auditors must use specific formats for their audit opinions and management letters.
- Internal audit reports are used by management, while external audit reports are used by stakeholders, such as investors, creditors, and lenders.
- Internal auditors can be used to provide advice and other consulting assistance to employees, while external auditors are constrained from supporting an audit client too closely.
- Internal auditors will examine issues related to company business practices and risks, while external auditors examine the financial records and issue an opinion regarding the financial statements of the company.
- Internal audits are conducted throughout the year, while external auditors conduct a single annual audit. If a client is publicly-held, external auditors will also provide review services three times per year.

In short, the two functions share one word in their names, but are otherwise quite different. Larger organizations typically have both functions, thereby ensuring that their records, processes, and financial statements are closely examined at regular intervals.

LEGISLATION

Legislation originates in several ways. The Constitution provides that the President "shall from time to time give to the Congress Information of the State of the Union, and recommend to their Consideration such Measures as he shall judge necessary and expedient;..."

The President fulfills this duty either by personally addressing a joint session of the two Houses or by sending messages in writing to Congress, or to either body thereof, which are received and referred to the appropriate committees. The President usually presents or submits his annual message on the state of the Union shortly after the beginning of a session.

In addition, there are many executive communications sent to Congress. These are documents signed by the President or by an agency or department head, and filed or submitted as a report to the Senate as directed by law or otherwise. These items are numbered sequentially for a Congress and assigned a prefix EC. They are described only by a brief statement of the contents in the Congressional Record.

The right of petition is guaranteed the citizens of the United States by the Constitution, and many individual petitions as well as memorials from State legislatures are sent to Congress. They are laid before the two Houses by their respective Presiding Officers or submitted by individual Members of the House and Senate in their respective bodies, and are usually referred to the appropriate committees of the House in which they were submitted.

Bills to carry out the recommendations of the President are usually introduced "by request" by the chairmen of the various committees or subcommittees thereof which have jurisdiction of the subject matter. Sometimes the committees themselves may submit and report to the Senate "original bills" to carry out such recommendations.

The ideas for legislative proposals may come from an individual Representative or Senator, from any of the executive departments of the Government, from private organized groups or associations, or from any individual citizen. However, they can be introduced in their respective Houses only by Senators and Representatives. When introduced, they are referred to the standing committees which have jurisdiction over the subject matter.

Members frequently introduce bills that are similar in purpose, in which case the committee considering them may add to one of the bills the best features of the others for reporting to the parent body, or draft an entirely new bill (known as an original bill) and report it in lieu of the others.

FRAMEWORK FOR REVIEW

The authors conducted a review of the development of internal auditing in international auditing standards, academic literature and selected practitioner research. Especially the last source supports practical insight of how IAF is carried out in the 21st century. This paper is subject to the limitation that only articles were used that could be generated with full-access by the following databases: EBSCO, Emerald and Sage. First it is shown how the status quo of the IAF was at the end of the 20th century. Accordingly, this paper begins with background information on the definition and the role of internal auditing. The main part of the model investigates how various factors influence the IAF, separated into internal (changes within the company) and external (changes in the environment) factors. Internal factors affecting IAF deal with issues such as corporate governance, organizational structure and the company's management. External factors affecting IAF comprise advances in information technology, regulations emerged from the financial crisis and major corporate scandals, as well as the relationship between internal and external auditors. These factors may not only have a direct effect on the function of internal auditing, but also may interact between each other. Identified relationships are directly depicted in the related chapters. Finally, the concept concludes by demonstrating how the understanding of IAF has developed as reaction to these impacts.

IMPACT FACTORS AND THEIR EFFECTS

It can be assumed that the diversity of the changes heightened the requirements for and enlarged the role of internal auditing. As internal auditors have to keep pace with developments in the world, the IAF will adopt accordingly in future.

1. This literature review has thrown up many questions in need of further investigation:
2. As internal and external factors develop in an increasing speed and severity of consequences, the authors suggest conducting literature reviews on this topic on a regular basis.
3. Studies are needed to understand the specific costs and benefits of a CRCA system compared to a periodic auditing system.
4. Further research should focus on how and to what extent IAF quality factors are evaluated by external auditors.
5. As a challenging position of internal auditing between the board of directors and the management could be identified, future studies on exploring the customer dimension of internal auditing are recommended.
6. More research needs to be undertaken in the changing nature of the IAF in context with geographic and industry differences and similarities.

CONCLUSION

Internal Audit and External Audit are not opposed to each other. Instead, they complement each other. External Auditor may use the work of the internal auditor if he thinks fit, but it does not reduce the responsibility of the external auditor. Internal Audit acts as a check on the activities of the business and assists by advising on various matters to gain operational efficiency.

On the other hand, external audit is entirely independent in which a third party is brought to the organisation to carry out the procedure. It checks the accuracy and validity of the annual accounts of the organisation.

BIBLOGRAPHY

1. Wood, David A. (May 2012). "Corporate Managers' Reliance on Internal Auditor Recommendations". *Evaluating: A Journal of Practice and Theory*. 31(2): 151– 166. doi:10.2308/ajpt-10234.
2. Wood, David A. (July 2009). "Inner Audit Quality and Earnings Management". *The Accounting Review*. 84 (4): 1255– 1280. doi:10.2308/accr.2009.84.4.1255.
3. Wood, David A. (September 2013). "A Descriptive Study of Factors Associated with the Internal Audit Function Policies Having an Impact: Comparisons Between Organizations in a Developed and an Emerging Economy". *Turkish Studies*. 14 (3): 581– 606. doi:10.1080/14683849.2013.833019.
4. "UK and Ireland Certifications". Eciia.eu. 2013-06-25. Filed from the first on 2013-08-20. Recovered 2013-09-04.
5. "The IIA-History and Evolution of Internal Auditing" (PDF). Recovered 2013-09-04.
6. "Inner Auditor Magazine". na.theiia.org. 2000-01-01. Recovered 2013-09-04.
7. "Pages - Standards". theiia.org.
8. "Job of Internal Auditing in ERM". Filed from the first on 2013-09-05. Recovered 2013-09-04.
9. "ECAAS Certification and Training". Recovered 2015-06-16.
10. "IIA Article "Getting a Leg Up"". Findarticles.com. Recovered 2013-09-04.
11. David Griffiths. "Inner review - Risk based - Introduction". internalaudit.biz.
12. "Inner Audit Checklists of different procedures". Interior Audit Expert. internalauditexpert.in. Filed from the first on 13 December 2013. Recovered 12 December 2013.
13. "Configuration of Internal Audit Report". internalauditexpert.in. Chronicled from the first on 7 December 2013. Recovered 3 December 2013.
14. Jump up to:a b "Pages - Developing the Internal Audit Strategic Plan Practice Guide". theiia.org.
15. Wood, David A. (November 2011). "The Effect of Using the Internal Audit Function as a Management Training Ground on the External Auditor's Reliance Decision". *The Accounting Review*. **86** (6): 2131–2154. doi:10.2308/accr-10136.

16. Frigo, Mark L. A Balanced Scorecard Framework for Internal Auditing Departments. IIA Research Foundation. Altamonte Springs, FL.: 2002
17. "IIA-GAIN Study-Knowledge Report-Measuring Internal Audit Performance-September 2009". Theiaa.org. 2000-01-01. Archived from the original on 2012-03-08. Retrieved 2013-09-04.
18. "PWC-2012 State of the Internal Audit Profession Survey-March 2012". Pwc.com. 2012-03-20. Retrieved 2013-09-04.
19. "Peer Review: IIA, GAGAS and ISSAI". projectauditors.com. 2012-01-01. Retrieved 2014-03-26.

