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Objectivity and Independence of Internal Audit

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Abstract

An internal audit is an important tool for companies to ensure their operations run smoothly and efficiently. It is also an important way to ensure that the company's policies and procedures are being followed. Internal audit processes should be objective and independent. We will explore the concept of objectivity and independence of internal audit, and how this affects the quality of the audit conducted by auditors. It will be discussed how companies can use internal audit findings to identify areas of improvement in their operations and how they can ensure that their internal auditors remain objective and independent while performing their duties. The main aim of this research is to examine the findings on how internal auditors can sustain objectivity and independence in order to provide an efficient service. The paper will explore the various ways in which internal auditors can remain independent from management interference and other external influences. Additionally, this research paper will discuss how technology can help improve the objectivity and independence of internal audits. Finally.

Index terms— objectivity and independence, internal audit and credibility; reliability, assurance, and principles.

1 I. Introduction

he internal audit profession is based on the principles of objectivity and independence. This means that internal auditors must not be influenced by any external factors, such as the interests of a company or its management. As such, they must remain independent when conducting their audits. Objectivity and independence are essential for an internal auditor to be able to perform their duties effectively and accurately. They ensure that the audit results are reliable and accurate, as well as provide assurance to stakeholders that the audit was conducted in accordance with professional standards. In order to maintain objectivity and independence, internal auditors should always refer to relevant professional standards such as those set out by the Institute of Internal Auditors (IIA). Such standards provide guidance on how an auditor should conduct their work in an ethical manner while ensuring they remain independent from any external influences.

The Internal audit is an independent and objective assurance and consulting activity designed to add value and improve a company's operations. It helps a company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditors are responsible for ensuring that the company complies with applicable laws, regulations, policies, procedures, contracts, and agreements. They must be independent from the activities they audit in order to provide unbiased opinions on the company's performance. By referencing external standards such as the International Professional Practices Framework (IPPF), internal auditors can ensure their objectivity and independence.

The concept of objectivity and independence has been discussed by many authors, such as Robert F. White, who argued that "internal auditors should be independent and objective in order to provide a reliable assurance on the effectiveness of internal control systems" (White, 1984). Similarly, Michael J. Jones (1999) pointed out that "internal auditors must maintain an independent attitude in order to ensure objectivity in their work". These

45 references clearly demonstrate how important it is for internal auditors to remain impartial when conducting
46 audits.

47 According to the Institute of Internal Auditors (IIA), objectivity is defined as "the state or quality of being
48 impartial, unprejudiced, and unbiased". On the other hand, independence is defined as "the state or quality
49 of being free from influence, control, or determination by another person or thing". This means that internal
50 auditors must be independent of the company's management and maintain an unbiased view when assessing the
51 financial statements and operations of a company.

52 **2 II. Steps for Developing an Effective Internal Audit Process** 53 **with Objectivity & Independence**

54 To ensure that the internal audit process is conducted objectively and independently, companies must take certain
55 steps to ensure that the auditors have no conflict of interest or bias in performing their duties. Internal audit is
56 an important function for any company. It is responsible for providing assurance that the company's processes
57 and procedures are compliant with applicable laws and regulations, as well as being efficient. This article will
58 discuss the key steps for developing an effective internal audit process with objectivity and independence. It will
59 cover topics such as establishing a clear scope for the audit, selecting qualified personnel, designing a risk-based
60 approach to auditing, and ensuring proper communication between stakeholders. Additionally, it will highlight
61 the importance of training employees on best practices for conducting audits with objectivity and independence.

62 Internal audit is an important part of any company's governance structure. It is the process of assessing the
63 efficiency of internal controls and procedures to ensure that the company meets its objectives. To be effective, an
64 internal auditor must maintain objectivity and independence in order to guarantee its credibility. This article will
65 discuss steps for developing an effective internal audit process with objectivity and independence. An effective
66 internal audit process is essential for any company to ensure that it is operating in compliance with laws and
67 regulations. It is also important for the company to maintain objectivity and independence in its internal audit
68 operations. This article will discuss the steps that can be taken to ensure that an internal audit process remains
69 objective and independent. It will explore the various measures that can be implemented to ensure that the
70 internal audit process is conducted with utmost integrity and fairness. Finally.

71 **3 III. Audit Planning Process**

72 The audit planning process must be conducted with objectivity and independence in mind. This means that
73 internal auditors should be unbiased when assessing the risks associated with any given process or system. To
74 ensure this, they must have access to all relevant information about the audit subject matter as well as references
75 from external sources such as industry experts or regulatory bodies. Furthermore, they must also be free from
76 any conflicts of interest so that their assessment is not influenced by any vested interests. Internal audit is a key
77 component of any company's internal control system. It is responsible for providing objective and independent
78 assurance that the company's policies, procedures, and processes are operating as intended. To ensure the
79 objectivity and independence of internal auditors, companies must have an effective audit planning process in
80 place. This process should include references to relevant laws, regulations, standards, guidelines, and other
81 applicable documents. Through this process, internal auditors can identify risks and design appropriate audit
82 procedures to address them. This will help ensure that the company's financial statements are free from material
83 misstatements due to fraud or error.

84 **4 IV. Risk Assessment Process**

85 The internal audit team must assess the adequacy of the risk assessment process in order to identify areas where
86 improvements are needed. This includes evaluating the accuracy and completeness of identified risks, as well
87 as assessing whether appropriate strategies and controls are in place to manage them. The internal audit team
88 should also assess whether management is adequately monitoring these risks on an ongoing basis. They should
89 also be able to provide a comprehensive view of the company's risk management process, as well as provide
90 insights into potential areas of improvement. Additionally, they should be able to identify any areas where
91 further investigation or action may be necessary in order to mitigate risks.

92 **5 V. Performance Evaluation Process**

93 Internal audit is an important part of any company's performance evaluation process. It helps to ensure that the
94 company's operations are conducted in accordance with its stated objectives and goals. It also helps to provide
95 assurance that the company's financial information is accurate and reliable.

96 However, for an internal audit to be effective, it must be conducted objectively and independently. This
97 means that the auditor must be free from any influence or bias when conducting the audit. To ensure this,
98 companies should follow certain guidelines outlined by leading authors such as COSO and IIA in order to
99 guarantee objectivity and independence of their internal audit process.

100 It is important that internal audit teams have the necessary resources, skills, and knowledge to carry out their
101 duties in a timely and effective manner. In order to ensure that all stakeholders involved in the performance

102 evaluation process are treated fairly and impartially, internal auditors must remain objective and independent.
103 This involves assessing any potential conflicts of interest, ensuring that all relevant information is taken into
104 consideration when making decisions and adhering to professional standards set by authors such as COSO or
105 IIA.

106 Objectivity in internal audit is a concept that has been discussed by many famous authors, such as Peter
107 Drucker, Warren Buffett, and David Maister. They all agree that objectivity is essential for an internal auditor
108 to carry out their job effectively. For example, Drucker stated that "A good internal auditor must be able to think
109 independently and objectively" while Buffett said "The only way to ensure absolute objectivity is for the auditor
110 to remain free from any influence or pressure from outside sources". Maister also noted that "An independent
111 internal audit should be based on facts, not opinions".

112 Other authors such as Robert Kiyosaki, Peter Drucker, and Arthur Andersen have stressed the importance of
113 objectivity in order to ensure that an audit is conducted in a fair and impartial manner. Objectivity implies that
114 the auditor should not be influenced by any external factors such as personal relationships or business interests
115 when conducting an audit. Furthermore, they should be able to remain independent. Objectivity also helps to
116 prevent conflicts of interest from arising during an audit process, which could lead to inaccurate results or even
117 fraud.

118 Threats to objectivity can occur due to various factors such as financial pressures from senior management or
119 a lack of independence from other departments. These threats can lead to biased opinions or decisions which
120 can have serious consequences for the company. It is therefore essential for internal auditors to be aware of such
121 threats and take steps to mitigate them by maintaining their independence and objectivity while conducting their
122 audits.

123 One of the objectives of an internal audit is to provide assurance to stakeholders that the company is performing
124 its duties in a professional and ethical manner.

125 Unfortunately, there are various threats that can compromise this independence and objectivity in this area.
126 These include self-review, familiarity with management, familiarity with staff, intimidation by management, and
127 financial incentives from management. It is important for internal auditors to recognize these threats and take
128 steps to mitigate them in order to maintain their objectivity and independence.

129 In order to mitigate the threats, it is important for auditors to have a clear understanding of their roles and
130 responsibilities and to adhere strictly to professional standards. Additionally, they should establish policies and
131 procedures that ensure independence from external influences. By doing so, they can ensure that their audits are
132 conducted objectively and impartially. Internal audit plays a vital role in ensuring the accuracy and objectivity
133 of financial statements. As such, it is important to ensure that threats to objectivity are mitigated. This can
134 be done by implementing proper policies and procedures, as well as by having effective communication between
135 the internal auditor and other stakeholders. References should also be taken into account when assessing the
136 independence of internal audit, in order to ensure that it remains unbiased and objective.

137 Best practices for maintaining objectivity include avoiding conflicts of interest, separating audit tasks from
138 operational duties, documenting decisions and actions taken, and ensuring that there is sufficient evidence to
139 support conclusions drawn. By following these best practices, internal auditors can ensure that their work
140 remains objective and independent.

141 **6 VI. Independence in Internal Audit**

142 It is essential for internal auditors to be independent in order to provide an unbiased opinion on the financial
143 statements. This independence should be maintained at all times so that there are no conflicts of interest between
144 the auditor and the company they are auditing. The independence of internal audit can be ensured by following
145 certain guidelines set forth by companies such as The Institute of Internal Auditors (IIA). These guidelines
146 include maintaining a separation between internal audit staff and management, avoiding any activities that could
147 create a conflict of interest, and ensuring that internal audit reports are based on reliable information gathered
148 from external sources. By following these guidelines, companies can ensure that their internal audits remain
149 independent and objective.

150 Independence also ensures that the auditor can provide accurate information and make sound recommendations
151 without fear of reprisal or bias from management. Several websites, such as Investopedia, Balance, and Auditnet,
152 provide detailed information on how to maintain independence in an internal audit process. There are several
153 potential threats to independence which can undermine an auditor's ability to provide objective assurance. The
154 threats to independence can come from external sources, such as political pressure or financial incentives, or
155 from within the company itself. These threats include self-review threats, familiarity threats, advocacy threats,
156 intimidation threats, and financial interest threats. It is important for companies and auditors to understand
157 these threats in order to ensure that their internal audit process remains objective and independent.

158 It is essential to ensure that threats to independence are identified and managed. This can be done by taking
159 steps such as separating audit duties from other duties, avoiding conflicts of interest, maintaining confidentiality,
160 and ensuring that auditors have sufficient expertise. With these measures in place, internal audit teams can
161 remain independent and objective when conducting their work. Furthermore, companies should also consult
162 external references such as websites or publications to ensure that their audit teams are properly trained and
163 well-informed about the latest developments in internal auditing.

164 The best practice to ensure that internal auditors are not involved in any operations or activities that may
165 create a conflict of interest, such as reviewing their own work or making decisions that could benefit themselves.
166 Additionally, companies must maintain clear policies and procedures regarding the selection and appointment of
167 internal auditors, as well as how they will be evaluated and compensated for their services. By following these
168 best practices for maintaining independence, companies can ensure that their internal audits provide accurate
169 information about their operations and performance.

170 7 VII. Objectivity and Independence: Interplay and Relation- 171 ship

172 Objectivity means that internal audit should be free from any bias or influence that could affect its judgment;
173 while independence requires that internal audit should not be subject to interference from other departments or
174 stakeholders.

175 We outline below the interplay between objectivity and independence in the context of internal auditing,
176 considering how these two concepts relate to each other and how they can work together in order to ensure
177 an effective risk management system. Objectivity and independence are interdependent concepts that must be
178 carefully balanced to ensure the integrity of a company's financial statements. Objectivity refers to the auditor's
179 ability to remain impartial when conducting an audit, while independence refers to the auditor's ability to
180 remain free from influence or bias from other parties. The two concepts are closely intertwined, as an auditor
181 must maintain both objectivity and independence in order for their work to be effective.

182 The importance of objectivity and independence in internal audit cannot be overstated, as they are essential
183 components for providing accurate information about a company's financial status. Without these two concepts,
184 the accuracy of financial statements would be compromised, leading to potential mismanagement or fraud.

185 The complementary nature of objectivity and independence helps to ensure that the auditor is able to carry
186 out their duties without any bias or influence from management.

187 8 VIII. Professional Guidelines and Standards

188 The internal audit process is an important part of corporate governance and requires a certain level of objectivity
189 and independence. This is why professional guidelines and standards need to be established in order to
190 ensure that the internal audit process is conducted in a fair, impartial, and accurate manner. Professional
191 guidelines and standards provide the necessary framework for internal auditors to work within. They ensure
192 that internal auditors are able to remain objective throughout the audit process and that their independence is
193 maintained. Professional guidelines also help to ensure that audits are conducted in accordance with applicable
194 laws, regulations, and industry best practices. The objective of an internal audit is to provide an independent
195 assurance that the company's processes, policies and controls are operating effectively. To ensure this, it is
196 important for the internal audit to be both objective and independent. This means that the internal audit should
197 be conducted in accordance with professional guidelines and standards, which are designed to ensure that all
198 audits are conducted in a consistent manner. Professional guidelines and standards also provide a framework for
199 evaluating the effectiveness of internal controls and ensuring compliance with applicable laws and regulations.

200 9 IX. Conclusion

201 In conclusion, this research paper has explored the crucial concepts of objectivity and independence in the context
202 of internal audit. Objectivity refers to the unbiased mindset and impartiality exhibited by internal auditors
203 in carrying out their responsibilities, while independence emphasizes the need for internal auditors to be free
204 from any undue influence or conflicts of interest that may compromise the integrity of their work. Throughout
205 the paper, we have highlighted the significance of objectivity and independence in ensuring the effectiveness
206 and credibility of internal audit functions within companies. The findings indicate that when internal auditors
207 maintain objectivity, they are better equipped to assess risks, identify control weaknesses, and provide reliable and
208 unbiased recommendations to improve governance and control processes. Furthermore, independence serves as a
209 critical pillar of internal audit, allowing auditors to operate without any constraints that might hinder their ability
210 to objectively evaluate companies' activities. By maintaining independence, internal auditors can effectively
211 challenge management decisions and practices, ensuring the transparency and accountability of the company.
212 The research has also highlighted some challenges to objectivity and independence in internal audit, such as
213 company pressures, conflicts of interest, and inadequate governance structures. These challenges underscore
214 the need for robust frameworks and policies that promote and safeguard objectivity and independence within
215 internal audit functions. It is evident that companies must prioritize and foster a culture that values objectivity
216 and independence in internal audit. This can be achieved through the establishment of clear policies, appropriate
217 training, and the provision of necessary resources to support the internal audit function. Additionally, regular
218 monitoring and evaluation processes should be implemented to assess the effectiveness of internal audit activities
219 and address any potential threats to objectivity and independence. Furthermore, internal auditors should adhere
220 to a code of ethics that outlines the standards of conduct expected from them. This code typically includes

221 principles such as integrity, objectivity, confidentiality, and professional competence. Compliance with the code
222 of ethics helps ensure that auditors maintain their independence and objectivity in practice.
223 In conclusion, objectivity and independence are indispensable principles that underpin the credibility,
224 effectiveness, and value of internal audit. By upholding these principles, companies can strengthen their internal
control systems, enhance risk management practices,¹

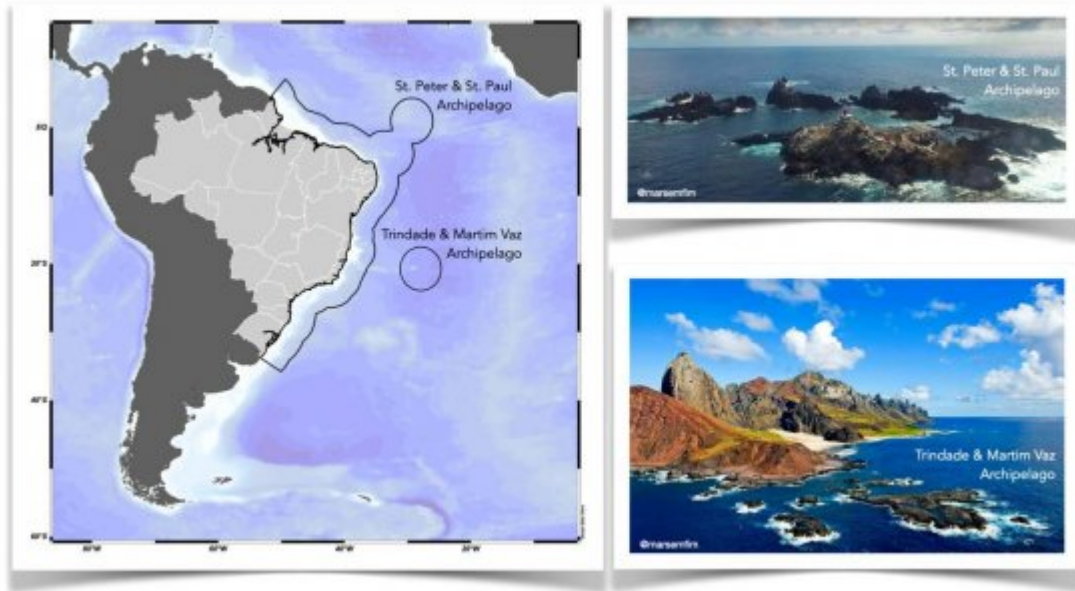


Figure 1:

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