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The development and quality of internal audit in public-interest entities and private sector entities in Poland

Abstract

Objectives: The purpose of this article is to discuss the regulations governing and the functioning principles for internal audits in financial institutions and private sector entities in Poland. Additionally, this study presents selected results of empirical research with regard to the effectiveness of internal audits in organisations.

Research Design & Methods: To determine the research problems related to the functioning of the internal audit systems in financial institutions and private sector entities the author analysed specialist literature and reviewed earlier studies addressing this question. On the basis of the analysis of such literature and applicable legislation the author prepared an anonymous questionnaire and distributed it among internal auditors from a number of organisations.

Findings: This paper discusses the legal basis and functioning principles for internal audits in financial institutions and private sector entities. The analysis related to internal audit functioning in financial and private sector presented in this paper made it possible to argue that the greatest development over the last several years took place in banks and insurance companies. On the basis of a survey carried out in financial institutions and private sector entities in Poland, the author set out to assess internal audit efficiency in organisations. Summarising the analysis of the internal audits in these entities, it should be argued that internal audit is highly diversified in specific types of entities. This results from the fact that individual entities operate in various legal and organisational environments and they differ in terms of their objective activity.

Implications / Recommendations: This study has shown that the perception of the auditor's role and auditing efficiency varies significantly in comparable institutions. These audits are indeed necessary and demonstrate the efficiency of internal audits in the financial and private sectors. These conclusions should be considered as an inspiration for more advanced studies.

Contribution / Value Added: The author points to potential further research on internal audit efficiency in financial institutions and private sector entities.

Article classification: research article

Keywords: internal audit, public-interest entities, financial institutions, private sector entities, auditors

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Introduction

For over twenty years, the approach to internal audit in organisations has undergone a particular transformation all over the world. Initially, an internal audit was an instrument used in many organisations only to verify the correctness of records made in accounting books. Over the years, the role of the internal auditor has significantly evolved towards examining all areas of the entity, taking into account evaluation of internal controls applied in the organisation, risk management and corporate governance.

In Poland, the term “audit” was used for the first time in commercial banks in the 1990s. Since 2002, the popularity of the internal audit has also grown in response to the requirements of the European Union in terms of the need to ensure proper use of financial means in the public finance sector. However, separate regulations and the path of internal audit development can be observed in financial institutions and in private sector entities (corporations and private companies).

In financial institutions and in private sector entities internal audits function at a varied level of development. The level at which internal audits operate in financial institutions significantly differs from audits carried in private companies. Since 2008, specific regulations concerning internal audits have been gradually introduced for individual categories of financial institutions. In other companies in the private sector, internal audits are still not obligatory. However, in practice many large companies and corporations have been using internal audits for many years.

Internal audit functions/positions already exist in many public-interest entities. In addition to introducing internal control systems, many financial institutions introduced internal control and/or internal audit functions and appointed audit committees a few years ago (Szczepankiewicz, 2011a). The pioneers in this area were commercial banks. The Polish financial sector features, inter alia, the following: 35 commercial banks, 556 co-operative banks, 27 insurance companies,

65 investment fund companies (managing more than 600 investment funds), 11 pension fund companies and three occupational pension schemes. Currently, internal audit functions in the private sector exist in many groups of financial institutions, in multiple publicly traded companies and in other companies as well. Publicly traded companies and financial institutions in Poland are considered to be public-interest entities.

The aim of this paper is to analyse the development of the internal audit function in public-interest entities and private sector entities in Poland. This paper covers the practical functioning of internal audits over the last 15 years in financial institutions and private companies. Factors stimulating the development of internal audits in individual groups of entities have been diagnosed. The most important regulations pertaining to functions of internal audit in individual categories of entities under analysis have been indicated. Additionally, this study presents selected results of empirical research with regard to the effectiveness of internal audits in public-interest entities and private sector entities. The research on added value and improving an organisation’s operations will be a valuable contribution to evaluation internal audit in those entities, because no Polish theorist has to date analysed the aspects of added value and improving an organisation’s operations.

Literature review

Currently the model used around the world with regard to the application of internal audits in organisations has been derived from the USA. In 1941 the Institute of Internal Auditors (the IIA) was established in New York. The IIA is the largest international organisation connecting internal auditors all over the world. In those times the role of the internal auditor was mainly identified with financial and operational auditing, but at the end of the twentieth century the functions of internal audit became subject to significant transformation. This was most significantly affected by the changes in the rules published

by the New York Stock Exchange (the NYSE) and the Public Company Accounting Oversight Board, as well as the Sarbanes–Oxley Act (2002). The new model of internal control systems and the new role of internal audits in public-interest entities ensured greater control over the quality of provided information about the financial situation of companies. In subsequent years the IIA also changed the definition of internal audit published in International Standards for the Professional Practice of Internal Audit (2016). Currently the definition of internal audit indicates the need to add value to the organisation. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish the objectives thereof. The scope of an auditor's work includes the internal control system, risk management process, and governance processes.

The subject matter of the role, tasks, functions and development of internal audit has been brought up around the world in research publications for many years. For example, the work by Brink and Cashin (1958) concerns the role and organisation of internal audits. Gibbs and Schroeder (1979) describe the aspects of evaluating the competence of internal auditors. A study by Lampe and Sutton (1994) presents the process of evaluating the work of internal audit departments. Sawyer (1995) covers aspects of internal audit philosophy. Wang (1997) indicates the development trends and future prospects of internal auditing. Around the world many researches postulate the need to introduce changes in internal audits, as well as to expand the scope of the internal auditor's tasks. The role of internal audits in the risk management process should change towards a more strategic approach. Internal audits should prevent the occurrence of risk in an organisation in future, as well as enabling the organisation to act more effectively (Waring & Morgan, 2007; Daujotait & Macerinskien, 2008; Boța-Avram et al., 2009; Beliciu, 2012; Alwardat & Abdelhafid, 2014). Ruud (2003) describes the internal audit function as an integral part

of organisational governance. McNamee (1998) presents the process of business risk assessment in internal audits. Spira and Page (2003) look at aspects of risk management, and the reinvention of internal control and the changing role of internal audit. De Zwaan et al. (2011) discuss the subject of internal audit involvement in enterprise risk management.

Brody and Lowe (2000), Mutchler (2003), Ahlawat and Lowe (2004), and Ahmad and Taylor (2009) discuss the new role of the internal auditor and implications for internal auditor objectivity and independence. Boța-Avram et al. (2009) indicate the future perspectives of the internal audit function. Arena and Azzone (2009) examine the process of identifying organisational drivers of internal audit effectiveness. Studies by Gibbs and Schroeder (1979), Arena and Azzone (2009), and Endaya and Hanefah (2016) demonstrate that the effectiveness of an internal auditor's activities is conditioned by the characteristics of the internal audit team, including the qualifications and ethics. Internal audit effectiveness particularly increases when the ratio between the number of internal auditors and employees grows and the chief audit executive is affiliated to the Institute of Internal Auditors. Goodwin (2004) provides a comparison of internal audits in the private and public sectors. Hass et al. (2006) present the new trends in internal auditing. Currently around the world the new ideas regarding internal audits have caused a departure from verification of compliancy of activities carried out by the audited unit with internal and legal regulations and a move towards examining the effectiveness of the audited processes, resources management and the efficiency of the results.

In Poland theoretical studies and empirical research concerning the development of internal audits in entities of private sector (enterprises and companies) are less frequent. The most important are the studies of such authors as: Saunders (2003); Piaszczyk (2004); Jedynek (ed.) (2004); Herdan, Stuss and Krasodomska (2009); Szczepankiewicz and Dudek (2010); Szczepankiewicz (2010a, 2010b); Urbanek (ed.)

(2012); Ciechan-Kujawa (2014); Dobija (2014); and Skoczylas-Tworek (2014). In the studies, the authors focused on: (i) issues related to the organisation of internal auditing in public-interest entities; (ii) methods of performance of audit tasks; and (iii) the methods and tools used during risk analysis. Authors often address detailed questions connected with audit tasks, financial and investment processes, innovation and knowledge management, HR management, IT security, or the independence of internal auditors. However, only some authors point to the increasing influence of the internal audit function on minimising or reducing risk in the operations of entities.

The theoretical studies and empirical research concerning the development of the internal audit in financial sector are much less frequent, only the works by Lament (2006, 2013), Janc and Kałużny (2008), Mikołajczyk and Krawczyk (2010), Kiedrowska and Szczepankiewicz (2011), Szczepankiewicz and Kiedrowska (2011), and Szczepankiewicz (2011a, 2011b, 2012a, 2012b, 2014). As regards quality assessment of internal audits in Poland, only a few studies have been published, among them Bartoszewicz (2015a, 2015b), Szczepankiewicz (2017a, 2017b) and Oleksyk (2017). However, there are still insufficient methods and indicators to assess the effectiveness of internal audits in public-interest entities and other private entities.

Methods of research

To determine the research problems related to the functioning of the internal audit systems in financial institutions and private sector entities the author analysed specialist literature and reviewed earlier studies addressing this question. On the basis of the analysis of such literature and applicable legislation the author prepared an anonymous questionnaire and distributed it among internal auditors from a number of organisations.

The study sample researched by the author consisted of a management staff survey and an internal documentation analysis. A total of

84 public-interest entities and other private sector entities were analysed, including the following: banks, insurance companies, listed companies and other commercial companies. Responses were submitted by management staff from the analysed organisations based in the Polish. The questions were addressed first of all to managers of audited departments dealing with finance, accounting and administration. The respondents were asked to provide descriptive justifications for their responses.

Results of research

Internal audits in banks

In Poland, internal audit functions have most often been established in banks. In 1992, after the economic transformation, a new banking law was introduced. On its basis a few state-owned banks and a dozen commercial banks with private capital were formed. In addition to those there were also more than 400 co-operative banks in the Polish banking market. In 1992 the National Bank of Poland developed guidelines on the introduction of internal auditor or controller positions in all banks. Back then the first control (or control & audit) departments were being formed in banks (Szczepankiewicz, 2011b, 2012a). Now all major banks operate internal audit departments. However, banks were not legally required to follow the said guidelines.

Until 2006 banks were supervised by two public institutions: the Commission for Banking Supervision (*Komisja Nadzoru Bankowego*, the KNB) and the General Inspectorate of Banking Supervision (*Generalny Inspektorat Nadzoru Bankowego*, the GINB). Both of them liaised with the Polish Institute of Internal Auditors at the Polish Banks Association. Acting on the recommendations of the Basel Committee and in co-operation with the KNB and the GINB, the National Bank of Poland developed a series of Polish recommendations for banks. In 2006 the roles of the KNB and the GINB were taken over by the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*,

the KNF) that has been supervising banks' operations and publishing a variety of guidelines and recommendations since then (Urbanek, 2012).

In 2008 the banking law was amended (2008) and a formal obligation to establish internal audit departments in all state-owned and commercial banks was introduced (Szczepankiewicz, 2011b). While individual co-operative banks are exempt from the new obligation, federations of co-operative banks are not. Internal audits in co-operative banks associated in a federation are out by audit departments from the head bank (Co-operative Banks Act, 2016; Szczepankiewicz, 2011b).

One of the amendments to the Act on Statutory Auditors and Public Supervision (2009) required banks to establish audit committees. Their responsibilities include assessment of internal control and risk management systems, as well as supervision over internal audits (if the bank in question has established an internal audit function).

Initially, many banks developed their own internal regulations and standards governing the functioning of internal audits. Today, with regard to internal audit and control, banks are required to follow a number of amended legislative acts, such as the Banking Law Act (2019) and the Act on Statutory Auditors, Auditor Firms and Public Supervision (2019), and resolutions and recommendations of the KNF, including: Recommendation H on banks' internal control systems and internal audits (1999, 2002, 2011, 2017) and the Recommendation on Audit Committees (2010).

Banks' management boards and audit committees should also take into consideration the KNF recommendations and guidelines developed on the basis of BCBS recommendations (Recommendation D, H, M, L and others), COSO – internal control reports (COSO Report, 1992, 1994; COSO II Report, 2004), as well as the Code of Best Practice for WSE-listed Companies (2007), if the bank is quoted on the Warsaw Stock Exchange. Currently most banks already follow the International Standards for the Professional Practice of Internal Audit

(1998, 2001, 2009, 2012, 2016), developed by the Institute of Internal Auditors (IIA).

Internal audits in insurance and reinsurance companies

The Act on Statutory Auditors and on the Public Supervision (2009) requires insurance and reinsurance companies to appoint audit committees. After the 2010 amendment of the insurance law, insurance and reinsurance companies had to develop and introduce risk acceptance principles and internal control systems (the Act on Insurance and Reinsurance, 2019).

Since 2010, insurance and reinsurance companies have been required to appoint audit committees (Szczepankiewicz, 2012b), while internal audit functions in such companies have been formally appointed only since 2013, as such appointment was not legally required before that date (Szczepankiewicz & Kiedrowska, 2011; Szczepankiewicz, 2012b). The internal audit obligation in insurance and reinsurance companies was introduced by amending Polish insurance law, after the adoption of Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) and the new Polish insurance law in 2013 (Szczepankiewicz & Kiedrowska, 2011; Solvency II, 2013; Lament, 2013). Initially, internal auditing guidelines were developed by the Polish Insurance Association (*Polska Izba Ubezpieczeń*, the PIU). Today, most insurance and reinsurance companies already follow the International Standards for the Professional Practice of Internal Audit (2016). Standard No. 2.2.6. on Enterprise Risk Management for Capital Adequacy and Solvency Purposes has also been introduced (International Association of Insurance Supervisors, 2008; Mikołajczak & Krawczyk, 2010; Kiedrowska & Szczepankiewicz, 2011).

The KNF also supervises the operations of insurance and reinsurance companies. As regards the appointment of audit committees, such companies follow the Recommendation on

Audit Committees (2010) and the Act on Statutory Auditors, Audit Firms and Public Supervision (2019).

Internal audits in investment fund and pension companies

The regulation on internal control in 2009 required investment fund companies to introduce internal supervision, risk management and internal audit systems. The regulation also required them to create an in-house internal control function and to develop and introduce an internal control system. However, it was only in 2013 that internal audit functions began to formally exist in investment fund companies (Szczepankiewicz, 2014). Internal auditing principles in investment companies and in funds managed by them were defined in 2013 by the new regulation on the organisation of investment fund companies (Regulation of the Minister of Finance, 2013). The regulation also introduced a new set of internal control and risk management rules applicable to investment funds. Currently, many investment fund companies have already implemented the International Standards for the Professional Practice of Internal Audit (2016). The Act on Statutory Auditors, Audit Firms and Public Supervision (2019) required investment fund companies to appoint audit committees.

So far, the internal audit obligation has not been formally introduced in pension companies (the Pension Fund Business Act, 2016). Pension companies must only operate internal control systems. However, some of them have voluntarily formed internal control or internal audit functions. In 2017, the Act on Statutory Auditors, Audit Firms and Public Supervision required pension companies to appoint audit committees. As regards the appointment of audit committees, pension companies also follow the Recommendation on Audit Committees (2010) from the KNF. The KNF supervises the operations of investment fund companies and pension companies as well as investment and pension funds.

Internal audits in other private sector entities

The Polish private sector is characterised by significant differences in the degree of development of internal audit systems (e.g. Szczepankiewicz & Dudek, 2009, 2010; Szczepankiewicz, 2010a, 2010b). In 2003, Polish companies affiliated with capital groups listed on American stock exchanges began introducing formal internal control systems and carried out internal audits. Their key motivation was the need to ensure compliance with the American Sarbanes–Oxley Act of 2002.

Internal audits in the private sector were also boosted by international corporations commencing operations in Poland. Therefore, many companies that are part of such corporations currently operate internal audit functions. In international corporations, internal audits are usually centralised. Audit functions from the headquarters periodically audit individual foreign branches. Sometimes local internal audit functions are also established in such foreign branches, varying in size from one to a few FTEs. They submit audit reports to the central internal audit department at the corporate headquarters.

Many smaller companies have also begun implementing internal audit, either inspired by their foreign business partners/creditors or convinced by external advisors/consulting companies. As no Polish standards in this regard have been adopted to date, companies follow the standards developed by the IIA (2016), introduced by their foreign business partners or generally used in a given industry.

As regards the appointing of corporate governance and audit committees (Szczepankiewicz & Dudek, 2009, 2010; Szczepankiewicz, 2010a; Urbanek, 2012) all WSE-listed companies also follow the Code of Best Practice for WSE-listed Companies (2007), the Recommendation on the Audit Committee (2010) and the Act on Statutory Auditors, Audit Firms and Public Supervision (2019).

Similarities and differences between internal auditing in financial institutions and in the private sector entities

To conclude the analysis of regulations and documents on internal audits in financial institutions and the private sector entities one can point out a few basic similarities and differences between them. The results of the comparison are presented in Table 1.

Performance audits as a new idea for internal audits in organisations

Grönlund, Svärdesten and Öhman (2011) and Lisiecka (2012) and Bartoszewicz (2015) argue that the new idea for internal audits in organisations initiated a departure from verification of compliancy of activities carried out by the audited unit with internal and legal regulations and a shift towards examining the effectiveness of the audited processes, resources management and the efficiency of the results. It is crucial to analyze the results

Table 1. Similarities and differences of internal audit operations in financial institutions and in the public finance sector

Financial institutions	Private sector entities
Legal basis	
Banking Law (2019) and Recommendation H in banks (2017)	WSE-listed companies and other private entities are not formally required to carry out internal audits
Insurance and Reinsurance Law (2019)	Recommendation on Audit Committees (2010) in WSE-listed companies
Regulation on investment fund companies (2013) and Investment Fund Law (2019)	
Recommendation on the Audit Committee (2010) in public-interest entities (including in financial institutions and in WSE-listed companies)	
Other financial institutions are not formally required to carry out internal audits	
Year of introduction of the legal obligation to carry out internal audits	
<ul style="list-style-type: none"> • 2008 commercial banks and head banks of co-operative banks federations • 2012 insurance sector institutions • 2013 investment fund companies 	Not formally required to carry out internal audits.
Purpose of internal audits	
To support the entity's management, in accordance with applicable laws and internal regulations on internal auditing.	
Qualifications of internal auditors	
No legislation in this regard	
Supervising body	
Audit Committee, or supervisory board, or president of the board of directors, or board of directors	
Scope of internal audit	
All areas of activity or areas specified in Internal Audit Rules of Operation	
Internal audit tasks	
As provided for in internal audit rules of operation adopted by the entity or International Standards for the Professional Practice of Internal Audit (2016)	

Source: Author's own work.

achieved or evaluate the actions taken by the unit from the point of view of effectiveness, efficiency and economy. The criteria of performance audits are presented in Table 2.

Performance audits indicate the need for proper preparation of the unit to carry out such audits (Bartoszewicz, 2015c):

- clearly defined objectives of the activity carried by the audited unit, the implementation of which will be subject to examination;
- proper indicators for measuring achievements in the form of quality measures, effectiveness of operations and costs of service;
- efficient system for data acquisition and analysis, to make it possible to evaluate the activities in terms of economy, efficiency and effectiveness;
- efficient communication system in the organisation; and
- ongoing monitoring and reporting of the degree of achieving the objectives.

In the opinion of the author, these assumptions can also be introduced in financial institutions and other entities which have been systematically developing internal audits in recent years in Poland.

An empirical study on added value

In 2016–2017, the author carried out an empirical study on audit quality and added value contributed by internal audit to organisations. All surveyed public-interest entities and other private sector entities had their own internal audit departments.

Many internal auditors from the analysed entities are confirmed by holding a diploma of postgraduate studies in the field of internal audit (75%) or qualifications of the statutory auditors (6%). Many persons have also one or several international certificates (11%): e.g. Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE), Association of Chartered Certified Accountants (ACCA), Certified Financial Services Auditor (CFSA), Certification in Control Self Assessment (CCSA) or Chartered Financial Analyst (CFA). Many internal auditors from the analysed entities participate systematically in training for internal auditors (64%). Only 5% of the internal auditors from the analysed entities are confirmed by holding a diploma of postgraduate studies in the field of internal audit and international certificate. The details of qualifications of the internal auditors from the analysed entities are presented in Table 3.

Table 2. The criteria of performance audits

Criterion	Audited object	Characteristic
Effectiveness	Results	Effectiveness aims at verifying the implementation of objectives planned by a given unit and evaluating the results of the activities undertaken. Audits based on the effectiveness criterion: examining the results of task implementation is evaluated.
Efficiency	Processes	Efficiency is the measure of using resources by the entity and the indicator of the costs incurred. Audits based on the efficiency criterion: examining the efficiency of the product/service, unit costs, indicators, e.g. those describing the level of the resource use, service lead time, etc. are verified.
Economy	Resources	Economy indicates the scope of activities undertaken by the unit and measures whether the costs were minimised in the activities conducted while preserving their quality. Audits based on the economy criterion: examining the scope in which the use of the resources (financial resources, personnel, equipment, accommodation resources) for carrying out the activities is minimised, also having in mind the need to ensure proper quality of the activities implemented.

Source: based on Grönlund, Svärdesten and Öhman (2011), Lisiecka (2012), and Bartoszewicz (2015c).

Table 3. The qualifications of the internal auditors from the analysed entities

Type of the surveyed entity	Only diploma of postgraduate studies (%)	Qualifications of a statutory auditor (%)	Only international certificates (%)	Diploma of postgraduate studies and international certificate (%)	Does the internal auditor attend training courses? (%)
Banks	68	7	17	8	82
Insurance companies	82	4	7	4	69
Listed companies and other commercial companies	76	6	8	2	42
Medium:	75	6	11	5	64

Source: Author's own work.

Table 4. The average period of employment of the internal auditors from the analysed entities

Type of the surveyed entity	Under 5 years (%)	5–10 years (%)	Over 10 years (%)
Banks	0	8	92
Insurance companies	4	72	24
Listed companies and other commercial companies	56	42	2

Source: Author's own work.

The internal auditors from the analysed entities gained their professional experience in various organisations. The average period of professional experience of the internal auditors from the analysed entities is presented in Table 4.

The survey consisted of three questions:
 (1) Would you say that the internal audit function in your entity provides high quality services?

(2) Has internal audit enhanced the operations of / contributed added value to your entity?
 (3) Has the number of consulting tasks compared to objective assurance tasks increased over the last two years?

The results of the research are presented in Tables 5–7.

Table 5. Would you say that the internal audit function in your entity provides high quality services?

Type of the surveyed entity	Response (%)		
	Yes	No	Hard to say
Banks	86	5	8
Insurance companies	82	9	9
Listed companies and other commercial companies	68	13	19
Average:	79	12	12

Source: Author's own work.

Those respondents who answered “yes” indicated that assurance and advisory services provided by the internal audit function were of high quality. The highest internal audit quality was reported in financial institutions, followed by listed companies and other commercial companies operating internal audits. The highest result was recorded for banks (just under 86%). In listed companies and other commercial companies only 68% of the respondents said that assurance and advisory services provided by the internal audit function were of high quality.

Those respondents who answered “no” were of the opinion that internal audit functions provided services of very low quality. In their organisations the management could not use internal audit results for improving the operations of the internal audit function or the audited area.

As many as 19% of the respondents were unable to assess internal audit quality in listed companies and other commercial companies, as compared to 8% in banks and 9% in insurance companies.

Those respondents who answered “yes” indicated that internal audit services were necessary and contributed added value to the organisation. Those who answered “no” were of the opinion that internal audit did not contribute any added value, either because its services were of very low quality or because it did not enhance the entity’s operations in any way.

The highest level of added value contributed by internal audit to the organisation was reported by respondents from banks (just under 88%). Levels reported by respondents from the insurance companies were lower (just under 63%). In listed companies and other commercial companies the rate of positive responses to the question about added value contributed by internal audit to the organisation was below 44%.

Those respondents who answered “yes” indicated that in the last two years internal audit had been providing more and more consulting services for the management. Those who replied “no” were

Table 6. Has internal audit enhanced the operations of / contributed added value to your entity?

Type of the surveyed entity	Response (%)		
	Yes	No	Hard to say
Banks	88	6	6
Insurance companies	63	12	15
Listed companies and other commercial companies	44	5	50
Average:	65	8	24

Source: Author’s own work.

Table 7. Has the number of consulting tasks compared to objective assurance tasks increased over the last two years?

Type of the surveyed entity	Response (%)		
	Yes	No	Hard to say
Banks	92	2	6
Insurance companies	83	15	12
Listed companies and other commercial companies	54	18	28
Average:	76	12	13

Source: Author’s own work.

of the opinion that the number of advisory services provided by internal audit had not increased.

The highest increase in the number of consulting services provided by internal audit was recorded for banks (92%), followed closely by insurance companies (83%). In listed companies the rate was clearly lower (54%).

The following conclusions were drawn from the empirical study:

1. Most internal auditors who hold international certificates are employed in banks, where 17% of auditors have such certificates. In other entities, certificates are held by fewer than 8% of auditors.
2. In insurance companies (3%) and in other companies (8%) internal audit positions were occupied also by persons with qualifications other than those listed in Table 1, such as risk specialists, experienced accountants, etc. This can be explained by the fact that there are no rules in force concerning professional qualifications of internal auditors employed outside the public sector. In the private sector, it is the management that determines the requirements to be met by candidates seeking to become an internal auditor, usually on a case-by-case basis.
3. The percentage of internal auditors regularly participating in internal audit training was highest in banks (82%), and lowest in listed companies and other commercial companies (42%). These results reflect the management's approach to the need for improving auditors' qualifications and to their advisory role.
4. 92% of auditors employed in banks have more than 10 years of professional experience. Only 4% of auditors in insurance companies have such long experience, compared to only 2% in listed companies and other commercial companies. The study results in this respect reflect the timing of introducing regulations concerning obligatory internal audit (2008 in banks and 2013 in insurance companies). However, many entities voluntarily set up internal audit functions many years ago. Internal auditors from the analysed entities gained their professional experience in various organisations.
5. The empirical study shows that the higher the qualifications of internal auditors and the longer the professional experience and the more regular their participation in professional training, the higher the quality of internal audits. In banks 86% of the respondents are satisfied with the quality of internal audits, compared to only 68% in listed companies.
6. The higher the qualifications of internal auditors and the longer the professional experience and the more regular their participation in professional training, the greater the value added by internal audits to the organisation. In banks 88% of the respondents believe that internal audits contribute added value to the organisation, compared to only 44% in listed companies.
7. Respondents confirmed that over the last few years the quantity of consulting services has increased in relation to objective assurance tasks. This means that the role of internal auditors is changing. The auditor is becoming an adviser to rather than just somebody who checks the management. The more advisory tasks are carried out, the greater added value is contributed to the organisation, because the management can more quickly respond to current risks and protect their organisations against risks in the future.

The conclusions from the present empirical research regarding the relationship between internal audit quality on the one hand and internal auditors' professional experience on the other are consistent with conclusions previously presented by many other authors (e.g. Gibbs & Schroeder, 1979; Arrena & Azzone, 2009; Endaya & Hanefah, 2016).

The research on added value and improving an entity's operations will be a valuable contribution to evaluation internal audit in Polish financial institutions, listed companies and other commercial companies, because no Polish theorist has to date analysed the aspects of added value and improving an entity's operations.

Final conclusions and directions for further research

Since 2008 Polish lawmakers have been passing regulations governing the functions of audit committees, establishment of internal control systems and introduction of internal audit to various organisations outside the public sector.

Summarising the practice of internal audits in Poland, one should note that it is highly diversified in specific types of entities. This results from the fact that individual entities operate in various legal and organisational environments and they differ in terms of their objectives, size, complexity and structure. Such conditions unquestionably affect the need to apply various solutions as regards carrying out an audit. The analysis related to internal audit functioning in Poland, presented in the paper, made it possible to claim that its greatest development over the last several years took place in banks and insurance companies.

Organisational solutions introduced in financial institutions and private companies in Poland differ from those introduced in public administration bodies. For example, depending on the solution in place, audit functions in financial institutions and companies may report either to the audit committee (or the supervisory board) or to the management board. Audit results are communicated by the internal auditor to the management and to the supervisory body. However, it is the management that determines (on the basis of those results and internal audit recommendations) the measures to be taken and subsequently ensures the taking thereof.

In the absence of Polish regulations with regard to the development of internal control systems, the Polish Financial Supervision Authority recommends that financial institutions and listed companies follow global concepts presented in COSO reports and IIA Standards.

All newly created regulations in Poland for different sectors of financial institutions take a similar approach to internal audits. In all such institutions, audit committees, internal audit and internal control systems should constitute the basic

elements of internal control and concept of integrated risk management system (Szczepankiewicz, 2011c). An important addition to internal control is financial audits carried out by statutory auditors.

At a time when economic crises pose an imminent threat, when effective management of public-interest entities is so important, the performance audit has become a necessity. At present, each entity, regardless of the sector or industry it operates in, its legal form or size, should operate in a purposeful and economical manner, preserving the principle of achieving the best effects of its expenditures. Therefore, in the opinion of the author, detailed research concerning this topic should be undertaken.

The author is of the opinion that it is necessary to continue research to the efficiency and effectiveness of internal audits in public-interest entities and private sector entities. In this way, answers to the following questions may be easier to find:

- 1) How are internal audits perceived in private sector? Is the auditor merely an inspector controller, or perhaps also an advisor to the senior management and the board?
- 2) Which areas of internal audits in the analysed entities need to be improved?
- 3) Would the internal audit function in an entity provide high quality services?
- 4) Have internal audits contributed added value to an entity?

The research will be a valuable contribution to evaluation internal audit in those entities, because no Polish theorist has to date further analysed those aspects.

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