

NEEDS AND SPECIFICS OF ENSURING EFFECTIVE INTERNAL AUDIT

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Abstract. *In modern business conditions, internal audit has significant potential for creating added value for the company and improving its operations. The extent to which internal audit will realise its objectives is primarily determined by the level of its effectiveness. In this regard, the authors of the paper, in addition to highlighting the importance of internal audit for achieving the strategic goals of the company, deal with the specifics of ensuring its effectiveness. These specifics are related to the issue of measuring the effectiveness of internal audit, as well as to identification and analysis of the factors that largely determine the achieved level of effectiveness of internal audit.*

Key Words: *internal audit, internal audit effectiveness, measures of effectiveness, factors of effectiveness*

INTRODUCTION

The development of internal audit, from its emergence until today, has been characterised by continuous expansion of the scope of its work and the powers granted to internal auditors. In addition, a particularly important period of development refers to the last fifteen years, when, under the influence of rapid and continuous changes in the business environment, the companies' exposure to various risks, especially financial scandals of the late twentieth and early twenty-first century, the establishment and functioning of internal audit in the company has become one of the most important prerequisites for the success of companies' business. In parallel with the focus on the role and importance of internal audit for the improvement of companies' business, it has been completely logical that the issue of ensuring its effectiveness will be opened. This is because only effective internal audit can meet all the demands that are placed in front of it and aimed at creating added value for the company.

The basic prerequisite of ensuring and increasing the effectiveness of internal audit is, certainly, the development of adequate approach to its measurement. The application of quantitative and qualitative methods that have been developed in practice, especially the

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choice of effectiveness measures that will best present the efficiency of internal audit in the creation of added value for the company, makes the issue of ensuring the effectiveness of internal audit very specific. Furthermore, when the effectiveness of internal audit is taken into consideration, one must bear in mind that this is a very dynamic category, determined by multiple factors. For these reasons, an important step in ensuring the effectiveness of internal audit is to identify factors that largely determine the level of effectiveness achieved, and then ensure their continuous improvement.

1. THE IMPORTANCE OF INTERNAL AUDIT AND THE NEED OF ENSURING ITS EFFECTIVENESS

In the modern business environment, internal audit has become an independent business function, which explores, questions, analyses, assesses, and monitors the operation of a certain entity, in order to improve the effectiveness of its operations. However, from its emergence to the present day, internal audit has been subject to continuous changes. These changes have been primarily related to the field of activity of internal audit, as well as the responsibilities, powers, and positions that internal auditors have had in the company. In fact, although it initially focused on the monitoring and control of bookkeeping in order to reduce errors, criminal activity, property alienation, and the like, the advent of management, i.e. the separation of the function of ownership from the function of management, has brought new powers to internal audit. Specifically, internal audit has been given the responsibility to monitor, examine, control, and evaluate the work of internal control systems, whereby the scope of activity has not been limited to accounting and finance, but also to business operations in general. Thus, the traditional concept of investigation, known as the financial audit, has been replaced with a modern concept, which is in theory and practice known as operational audit, which provides internal audit with a high level of control in all business functions of the company that are managed.

However, in the last fifteen years, the extremely complex environment in which the companies operate the new laws and other regulations, and the financial collapses of the late twentieth and early twenty-first century (Kapoor, Brozzetti, 2012, 32) led to a significant expansion of the scope of work and the role of internal audit. Specifically, internal audit is expected to be focused on understanding the risks that could adversely affect the organisation, as well as the establishment of a mechanism to monitor the risk and control it, with a view to its elimination or, at least, reduction. It is also expected to provide support at each stage of the change in the management process, to provide guidance in the design of work processes, to identify possibilities of improvement, and the like. So, in addition to providing assurance, internal audit has been given a significant advisory role, aimed at adequate establishment and improvement of the processes in the company. In this way, the role and activities of modern internal audit are focused on adding value to the company, which is particularly emphasised in the definition of internal audit given by the Institute of Internal Auditors, according to which internal audit is an “independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (IIA). The contribution and importance of internal audit to the improvement of a company’s operations, depending on the role and scope of its work, is shown in Figure 1.

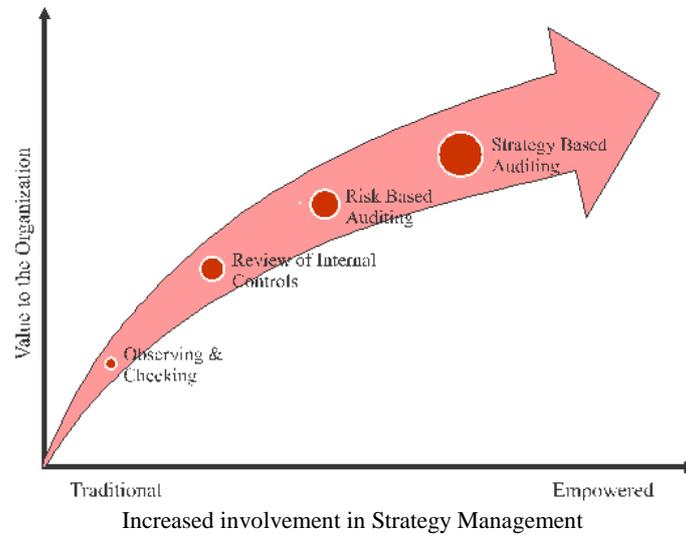


Fig. 1 Trends in Internal Audit

Source: Aksoy, Bozkus, 2012, 1287

So, today, it is indisputable that internal audit is a highly professional activity, aimed at examining and evaluating the functioning of the entire business system and providing opinions and advice to improve its operations. By focusing its roles and activities on the implementation of the strategic goals of the company, internal audit represents an indispensable participant in the management of the company.

However, changes in the “mission” of internal audit have caused the companies to, apart from the “simultaneous and consistent redesigning of roles and activities of internal audit” (Arena, Azzone, 2009, 44), focus significant attention on ensuring its effectiveness. This is because the adequate establishment of internal audit within the company does not imply necessarily that the company will have some benefits from it, or that internal audit will contribute to achieving the company’s objectives. More precisely, only effective internal audit can justify its existence, provide the best way of carrying out its roles, and meet the expectations that have been placed in front of it. In fact, if the effectiveness of internal audit is seen as “the degree of fulfilment of the objectives for which internal audit has been established” (IPPF Practice Guide), it can be said that it becomes effective when it contributes significantly to the success of business operations through subsequent and preventive action. Through subsequent action, aimed at evaluating the effects of past events, i.e. results achieved and errors made, internal audit aims to correct such errors and irregularities and prevent their recurrence in the future. On the other hand, through preventive action, aimed at providing help and support to management in identifying future risks, proposing the establishment of an adequate system of internal controls which will bring those risks under control on time, providing advice for improving the efficiency and effectiveness of business processes, and the like, internal audit contributes to the success of the overall business operations. Specifically, achieving a satisfactory level of effectiveness of internal audit ensures the effectiveness of the audited process and the company in general (Mihret, 471).

Furthermore, by achieving the appropriate level of effectiveness, internal audit, in fact, shows how and to what extent it contributes to the improvement of business operations, and proves its value to the company, which, certainly, gets the appropriate reputation. This further implies that internal audit is accepted by the executive management, the board of directors, and owners of the company, as a strategic partner in company management. In such situations, stakeholders observe internal audit as an independent source of objective advice, helpful in implementing corporate governance, risk management and control process management, which helps companies achieve strategic, operational, financial, and goals of regulatory compliance. They also see it as a catalyst of improving the effectiveness and efficiency of the company through internal review and recommendations based on the analysis and compilation of data and business processes.

For these reasons, the internal audit profession today focuses more attention precisely on improving its effectiveness, as a prerequisite not only of its contribution to the improvement of company management and the creation of added value, but also of further survival.

2. APPROACHES TO MEASURING THE EFFECTIVENESS OF INTERNAL AUDIT

The first step in ensuring the effectiveness of internal audit is to establish adequate approach to its measurement and evaluation. This view is fully justified by the fact that, as stated by Kaplan and Norton, if you cannot measure it, you cannot manage it. The need for measuring and evaluating the effectiveness of internal audit is especially emphasised in the International Standards for the Professional Practice of Internal Auditing, according to which “the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity” (ISPP 1300). This programme ensures assessment of the effectiveness and efficiency of internal audit, and its required components are both internal and external assessments.

Measuring the effectiveness of internal audit, as the issue that has become particularly important, at the same time set a challenge that is reflected in the selection of relevant measures of effectiveness, i.e. the fulfilment of the tasks and objectives of internal audit. The Institute of Internal Auditors indicates that the source that should be consulted in the selection of measures of effectiveness is the International Professional Practices Framework, pointing to the compliance of the work of internal auditors with the International Standards and Code of Ethics, as the prerequisite of internal audit best practice. In this regard, the Institute has defined several approaches to assessing the compliance of internal audit with the standards. However, although they provide important information, these approaches have significant shortcomings, which are primarily reflected in the fact that the choice of measures is inadequate. These shortcomings are specifically related to the fact that the provided response categories limit the application of descriptive statistics. Furthermore, measuring effectiveness on the basis of obtaining explanations or descriptions provides qualitative data that indeed is important, but prevents the application of statistical analysis. In addition, some approaches do not include all standards. Characteristics and disadvantages of the recommended approaches are given in Table 1.

Table 1 Approaches to measuring the effectiveness of internal audit

Year	Scales	Component assessed	Limitations
2003	Categorical	-Purpose, authority and responsibilities -Independence -Objectivity -Proficiency -Due professional care -Quality assurance and improvement in internal audit function -Providing assurance and generating improvement in the organization	-Subjective measures -Limit answer to Yes or No
2006	-Subjective answer e.g.: Explain, Describe -Categorical	Organizational and environment -Background of the organization -Risk management -Governance -Accountability and oversight -The internal audit functions -Background of internal audit functions -Internal audit practice environment -Relationship with senior management and board -Management of activities -Information technology. -Internal Assessment of: -Ongoing review -Periodic review	-Very subjective measures -All are open ended questions -There is no specific question to tap individual components assessed
2007	-Categorical -GC, generally conform -PC, partially conform	-Planning -Purpose, authority and responsibilities -Internal assessment -Professional development -Quality assurance program -Policies and procedures -Resource management -Organizational independence -Risk management -Recording of information -Engagement supervision -Communicating results -Engagement planning	-Categorical in nature -Some of the standards are not covered

Source: (adapted from: Kasim, Hanafi, 2009, 3404-3405)

The disadvantages of the above-mentioned approaches to measuring the effectiveness of internal audit, among other things, imposed the need for the application of quantitative methods that are easy to understand and based on existing data that can be easily collected. It is believed that the applied quantitative measures more clearly indicate the effectiveness of internal auditors. Research conducted by Ernst & Young in 2007 shows that the most commonly used quantitative measures of effectiveness are: the degree of realisation of internal audit plan, i.e. setting implemented activities in relation to the planned activities in a given period of time, and the time required for the issuance of the final internal audit report. Moreover, commonly used measures in practice include: determining eligibility of internal auditors (number of auditors who possess professional certificates, number of years of experience, etc.) and determining the length of time that auditors spend during the day performing audit activities and the time they spend doing other administrative tasks.

Arena & Azzone (2009, 48) point to another objection to the approaches recommended by the Institute of Internal Auditors, emphasising the fact that the harmonisation of procedures, activities, and qualifications of internal auditors with the standard requirements in itself does not mean at the same time the achievement of a high level of effectiveness of internal audit. These, as they call them, *process measures*, do not indicate the level of achievement of the objectives of modern internal audit, which are reflected in meeting the information needs of stakeholders and consequently improving the overall business of the company and creating the added value. For these reasons, these authors believe that the more appropriate are *output measures*, which relate to: the percentage of internal audit recommendations that management adopted and implemented, the satisfaction of management, and others. Certainly, *outcome measures* of internal audit are recognised as well, which are reflected in savings in costs, increased profits, higher prices of shares of the company, and the like, which are the result of implementation of internal audit recommendations. However, the fact is that it is very difficult to isolate the contribution of internal audit to these measures, which makes it difficult to apply them in practice.

A significant contribution to the measurement of efficiency of internal audit is given by Ziegenfuss, who developed 84 measures of effectiveness, classified into the following four groups (2000, 40):

- Internal audit input: the experience of employees, number of certified internal auditors, the average number of years of experience of internal auditors, the number of hours of training, and the like;
- Internal audit environment: the number of management requests for internal audit, the audit committee's satisfaction, management expectations from internal audit, and the like;
- Internal audit process: the percentage of implemented audits in relation to the planned ones, the number of objections in relation to the work of internal auditors, the accomplished number of hours of work in relation to the budget, and the like, and
- Internal audit output: the number of recommendations, the number of recommendations implemented by the management, the number of improved processes based on internal audit recommendations, the average response time to management requests, and the like.

The combined application of qualitative and quantitative measures, aimed at identifying the harmonisation of the work of internal auditors with professional standards and expectations of stakeholders, implies a comprehensive approach that enables adequate

measurement of the effectiveness of internal audit and its contribution to the creation of added value, as the foundation on which it is based.

3. FACTORS OF EFFECTIVENESS OF INTERNAL AUDIT

Bearing in mind the specifics of measuring the effectiveness of internal audit, primarily in terms of the selection of adequate measures, the logical conclusion is that the effectiveness of internal audit is a dynamic category, conditioned by multiple factors. In this regard, the identification of factors that to a great extent determine the level of achieved effectiveness of internal audit is an issue discussed by many authors. Therefore, Arena & Azzone (2009) claim that available resources and competence of internal audit team, internal audit involvement in risk management, and the relationship between the audit committee and internal audit strongly determine the effectiveness of these functions. Furthermore, Gansberghe (2005) believes that the greatest impact on the effectiveness of internal audit is exerted by ownership, established organisational and regulatory framework in the company, legislation, resources, and professionalism of internal auditors. Soh & Martinov-Bennie (2011) believe that the structure, status, relationships of internal audit function with stakeholders, and competence of internal auditors are the factors with the greatest impact.

Our starting standpoint is that the effectiveness of internal audit is primarily determined by competence, independence, and objectivity of internal auditors. However, the attitude of stakeholders towards internal audit, in terms of supporting it and relying on its work, largely depends on the harmonisation of internal audit plans with the strategic plans of the company, as well as approaches and the ways in which internal audit reports to the stakeholders.

3.1. The competence of internal auditors

Achieving a high level of effectiveness of internal audit is influenced by the competence of internal auditors, which is, as Sarens (2009, 4) argues, determined by: education of internal auditors, their working experience, professional certificates, continuing education and the establishment of development programmes, possession of behavioural and technical skills and competence. A strong impact of the competence of internal auditors on internal audit effectiveness has resulted in the numerous studies on this topic. Thus, Arena & Azzone (2009, 45) indicate that competent auditors are able to provide advice that will contribute to the improvement of the internal control system, to adequately complete their work, to use their experience to find consistent solutions and adequately respond to the complex and conflicting situations. Belay (2007, 10) suggests that the competence of the chief audit executive and the audit team is the basis for the establishment of a systematic and disciplined approach to evaluation and improvement of business processes in a company. Soh & Martinov-Bennie (2011) indicate that only with the possession of a broad spectrum of knowledge in finance, audit, business management, technology, and legal regulations, can internal auditors produce the expected results.

In addition, within the scope of the global research into the specific issues related to internal audit practice, the Research Foundation of the Institute of Internal Auditors focused special attention on the competence of internal auditors, and came up with the report which identifies and discusses key competences that modern internal auditors must have: general competences, behavioural skills, and technical skills. The overview of these skills is given in Table 2.

Table 2 Key competences of internal auditors

General competencies	Behavioral Skills	Technical Skills
Communication skills	Confidentiality	Understanding business
Organizational skills	Judgement	Business process analysis
Problem identification and solution skills	Team player	Identifying types of controls
Ability to promote value of internal audit	Facilitation	Operational and management research skills
Conflict resolution/negotiation skills	Leadership	Problem-solving tools and techniques
IT skills	Change catalyst	Financial analysis tools
	Work independently	Statistical sampling
	Governance and ethics	
	sensitivity	
	Objectivity	

Source: (Bailey, 2010, 5, 11, 17)

Character traits of internal auditors determine the possession of some of the above-mentioned skills. However, most of these skills are acquired through education and experience in carrying out audit activities. However, although once acquired competences, knowledge, and skills undoubtedly contribute to the proper performance of internal audit activities, they need to be continuously improved through a variety of trainings, education, and development programmes. Even the Rules of Conduct of the Code of Ethics for Internal Auditors state that “internal auditors shall continually improve their proficiency and the effectiveness and quality of their services”. Certainly, significant opportunities for this are mainly in the hands of internal auditors who are members of relevant professional organisations that are focused on the development of theory, and especially the practice of internal audit. Through constant organisation of various educational workshops, research, and dissemination of knowledge about the possible contribution of internal audit to the improvement of the overall business of companies, and gathering of internal auditors from different countries in order to exchange knowledge and experience, these organisations play an important role in the continuous improvement of the competences of internal auditors. In addition, these organisations provide training programmes for acquiring professional titles that specifically affirm the competence and qualifications of internal auditors.

3.2. Independence and objectivity of internal auditors

Independence and objectivity are concepts on which internal audit has always been based, and which significantly determine its effective realisation. However, the expansion of its role brought these concepts to the fore, for the reason that the simultaneous provision of assurance and advisory services can make internal audit the subject of many conflicts. In addition, the issue of objectivity of internal auditors is particularly pronounced given that they are actually employed by the company to which they provide such services (Stewart, Subramaniam, 329).

The importance of ensuring a high level of independence and objectivity of internal audit has made professional bodies focus particular attention on these issues. Thus, the International Professional Practices Framework, which was developed by the Institute of Internal Auditors, already in the definition of internal audit states that it is “...an independent, objective assurance and consulting activity...” In addition, numerous performance standards are focused on the issues of providing (1) independence as “freedom from conditions that

may be a threat to the ability of the internal audit to impartially perform its tasks”, and (2) objectivity as “unbiased mental attitude that allows internal auditors to perform their tasks in such a way that they believe in the result of their work as well as in the fact that no concessions have been made in terms of quality”. With this in mind, it is quite reasonable to say that the effective functioning of internal audit is largely determined by the independence and objectivity of internal audit, in terms of defining the scope of its work, the implementation of activities, and reporting of results (Kondić, Petrović, 2012, 132). The level of achieved independence and objectivity of internal audit is determined by: the relationship between internal audit and company management, audit committee effectiveness, and competence of auditors (Kamau, Nduati, Mutiso, 2014, 133-134).

In fact, although modern internal audit carries the title of a strategic partner to the company management, primarily because it provides advice aimed at improving management process, it does not mean that management should regard internal auditors as “their” employees and include them in the daily management activities. Management’s expectations that internal auditors will be actively involved in the management activities, and vice versa, a greater impact of management on work planning, budget approval and implementation of the internal audit activities may significantly jeopardise the independence and objectivity of internal audit. Therefore, the establishment and effective functioning of the Audit Committee, as a body that is composed of non-executive members of the management board, may significantly ensure the independence and objectivity of internal audit in relation to the company management. Specifically, the Audit Committee needs to confirm the charter, approve the internal audit plan and budget, and evaluate its work. Certainly, a higher level of Committee’s effectiveness, which is, among other things, determined by the possession of different expertise of its members, means a greater contribution to the independence and objectivity of internal audit. This is because the members of the Audit Committee who have different financial, technical, and other expertise can better understand the work programmes, activities, and results of internal audit, and thus better evaluate the performance of its work. Therefore, practical advice 1110-1 states that internal audit should only administratively report to the management (on matters related solely to the daily operations of companies), but not functionally (on issues relating to the scope of work, internal audit planning, etc.).

In addition to the internal audit relationship with its stakeholders, a factor that significantly affects the independence and objectivity of internal auditors is their competence. This is because the auditors who possess a high level of different knowledge and skills, common sense, critical thinking, and analysis are able to independently and objectively perform tasks that are within the scope of their work.

3.3. Internal audit planning

The effectiveness of internal audit is largely determined by the focus of its work on the planned tasks. Internal audit planning defines the work priorities, establishes goals that are to be achieved, defines the control measures to ensure that the internal audit objectives are met, and ensures efficient and effective use of audit resources. The responsibility for proposing a plan is in the hands of the chief audit executive, who must establish plans based on risk assessment that is carried out at least once a year. The chief audit executive is obliged to consider the expectations of senior management, the board, and other stakeholders in terms of internal audit opinions and other conclusions, send requests for the appropriate resources, and ensure that they are sufficient and effectively used (ISPP 2010). Depending on

the time period, as well as the level for which the planning is done, we distinguish between planning at the level of internal audit function, which involves strategic and annual planning, and planning at the level of individual processes/engagement. The relationship between these levels of planning is reflected in the fact that strategic and annual planning form the basis for developing a plan of individual engagement.

Strategic planning of internal audit is crucial for the achievement of a high level of audit effectiveness, as it involves defining strategies, goals, and directing its work towards the fulfilment of defined strategic goals of the company. In this way, strategic internal audit plan is an “instrument that improves the position of internal audit and emphasises its importance within the company” (Cecere, Nadeau, 2013, 40). According to the guidelines of the American Institute of Internal Auditors, strategic planning involves: introduction to the goals of the company; consideration of the International Professional Practices Framework; introduction to the expectations of stakeholders; harmonisation of the mission and vision of internal audit with the goals of the company; defining critical success factors and performance of SWOT analysis (Institute of Internal Auditors, 2012). This allows for the definition of specific and measurable objectives of internal audit, which will be supplemented by performance indicators that need to be regularly monitored. In addition, although it is adopted for a period of three to five years, a strategic plan is a very dynamic category, which is reviewed and adapted to changing circumstances.

Based on the strategic plan, an annual internal audit plan is developed, which defines goals and tasks, i.e. the number and scope of audits to be realised in the coming year, which should be in accordance with the internal rules and the complexity of individual work tasks. Furthermore, this plan gives a detailed description of human and other resources necessary for the smooth implementation of planned activities. The annual audit plan is based on an annual risk study, which defines and assesses risk areas within company’s business and quantifies risks in terms of intensity. A study based on the principles of meticulousness and comprehensiveness provides a greater likelihood of making a quality internal audit plan, and thus achieving better final results (Dančić, Janić, 2012).

Finally, internal auditors must determine and document the objectives, scope, and perform precise allocation of resources for each individual engagement. Individual engagement planning implies that auditors consider: (1) the goal of the activity being audited, and the way to control the execution of the procedures, (2) significant risks to the activity, and the manner in which the potential impact of risk can be reduced to an acceptable level, (3) the adequacy and effectiveness of risk management and control system in comparison to the relevant control framework or model, and (4) the possibility of significant improvement of the risk management and control system (Pickett, 2006, 143-144). A careful individual engagement plan that includes all the necessary elements is a step towards achieving the annual and strategic plans of internal audit.

3.4. Internal audit reporting

Realisation of the role of internal audit includes the control of the work of others, which makes the existence of risk of controlled parties’ aversion to internal audit totally realistic. For these reasons, adequately designed internal audit mode of communication with its users, as well as the quality of internal audit report, significantly determine the level of acceptance and the recognition of the importance of this function. Specifically, in addition to providing information on what the performed audit has revealed, internal auditors need to

convince stakeholders of the value and objectivity of the auditor's findings, and thus encourage and stimulate management's actions towards change and improvement (Sawyer, Dittenhofer, Scheiner, 2003, 689). By providing explanations as to why a particular process is audited, which errors are detected, and what are the causes of these errors, as well as by giving recommendations about what should be done to correct the error (Moeller, 2009, 352), internal audit is able to produce the expected effects. In doing so, in addition to reporting to the audit committee and the company's management, internal audit should establish an appropriate communication strategy with other parts of the company. This strategy should be focused on: *raising awareness of the role of internal audit* by publicising the role, activities, and achievements of internal audit on the company website, in short brochures, etc; *active involvement of management in the audit process*, in terms of consultation during the drafting of the audit plan, the completion of audit procedures, organisation of workshops dealing with risk, and the like, and *proactive actions in order to create added value for the company*, by supplementing each individual audit plan with objectives relating to efficiency, effectiveness, cost-effectiveness, and results achieved, and involvement in the work of groups dealing with issues of strategic development as observers or advisors (Cox).

Furthermore, the form and structure of the internal audit report are determined by numerous factors. However, according to the International Standards for the Professional Practice of Internal Auditing, the report should include a minimum of: a description of the goals and an explanation of why the engagement has been performed; scope, i.e. activities that have been audited and the time period covered by the audit, and the results of engagement – observations, conclusions, opinions, recommendations, and action plans. A particularly important part of the report are recommendations regarding process improvement in the company, i.e. eliminating the causes of problems, which internal auditors suggest and use to urge management to take action in order to increase performance and achieve the desired results of the process. The importance of recommendations is particularly emphasised if internal auditors present the criterion/condition that is desirable to achieve, then the current state of affairs, the actual causes of deviation from the desired state, and, finally, the effect, or risk exposure due to the above-mentioned deviations (Sawyer, Dittenhofer, Scheiner, 2003). In addition, it is important to rank the recommendations according to the degree of risk, because it will be a guide to the company management to identify the most important recommendation that needs to be put into practice first. When preparing reports, internal auditors must take into account the report quality in terms of accuracy, objectivity, clarity, conciseness, constructiveness, completeness and timeliness of information.

In addition to adequate reporting on the work results, the stakeholders' trust in the work of internal audit and its effectiveness are significantly increased if internal audit periodically demonstrates its importance and reports on the quality of its work. In this regard, Valencia (2012) points out some of the methods that internal audit can apply: (1) reporting on the annual number of hours spent auditing in relation to the total number of working hours, including hours spent on training, administrative tasks, and the like, (2) reporting on the quality of work, which can be expressed by the number of management's requests for internal audit, the time needed to respond to these requests, and the like, (3) reporting on the skills of internal auditors that can be expressed by the average number of years of experience, number of certified internal auditors, and the like, (4) reporting on the number of recommendations that produced financial benefits: cost savings, cost reduction, and the like.

CONCLUSION

There is no doubt that through its dual role, which is reflected in the provision of assurance and advisory services, as well as through a systematic and disciplined approach to evaluating and improving the effectiveness of risk, control, and process management, internal audit provides a great contribution to the company in achieving its goals. However, the establishment of internal audit function, in terms of assigning responsibility and power to internal auditors, is no guarantee that it will achieve its goals. Issues that have to be addressed specifically are aimed at ensuring the effectiveness of internal audit, as the basic prerequisite of meeting increasing number of expectations that have been placed before this function.

The prerequisite of ensuring the effectiveness of internal audit is the establishment of adequate approach to its measurement. This issue has been discussed by a number of theorists and practitioners, which caused the development and application of different methods – both qualitative and quantitative. Each of these methods, whether qualitative or quantitative, has certain limitations, which is why practice suggests their combined use. Moreover, practice applies different measures of effectiveness of internal audit. Specifically, output measures, related to the satisfaction of the management with internal audit, the percentage of implemented recommendations of internal audit, and the like, are considered to be the ones that best reflect the achievement of the goals of modern internal audit.

Furthermore, an essential prerequisite for ensuring the effectiveness of internal audit relates to the identification of the factors that determine the degree to which internal audit contributes to the improvement of company management and the achievement of its strategic goals. Among the factors with the greatest impact, the following are identified: competence of internal auditors, i.e. internal auditors' experience, membership in professional organisations, possession of certificates, and the like; independence and objectivity of internal audit, i.e. internal auditors' cooperation with stakeholders, reporting lines, and the like; internal audit planning, i.e. harmonisation of internal audit plans with the strategic goals of the company and the needs of stakeholders, and approaches to internal audit reporting, i.e. quality, timeliness, and structure of reports. The strength of the impact of these factors on the effectiveness of internal audit causes their continuous review and improvement.

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POTREBA I SPECIFIČNOSTI OBEZBEĐIVANJA EFEKTIVNOSTI INTERNE REVIZIJE

U savremenim uslovima poslovanja interna revizija poseduje značajne potencijale za kreiranje dodate vrednosti za preduzeće i unapređenje njegovog poslovanja. Mera u kojoj će interna revizija realizovati svoje ciljeve prvenstveno je uslovljena nivoom njene efektivnosti. U tom smislu, autori se u radu, pored isticanja značaja interne revizije za ostvarenje strateških ciljeva preduzeća, posebno bave specifičnostima obezbeđivanja njene efektivnosti. Te specifičnosti se odnose kako na pitanje merenja efektivnosti interne revizije, tako i na identifikovanje i analizu faktora koji u najvećoj meri determinišu ostvareni nivo efektivnosti interne revizije.

Ključne reči: *Interna revizija, efektivnost interne revizije, mere efektivnosti, faktori efektivnosti.*