

BUSINESS COMMUNICATION IN INTERNAL AUDIT AND MODEL OF ORGANIZATION OF INTERNAL AUDIT DEPARTMENT AS A BASIS OF EFFECTIVE COMMUNICATION

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Abstract: An effective internal control system requires the existence of reliable information systems to provide timely and reliable informations, as well as efficient communication channels that ensure that all staff, at all levels, fully understand and follow policies and procedures, depending on the place of internal audit in organization. Successful internal audit activities require verbal (oral and written) communication skills. In this regard, good preparation of the auditor for interviews, effective questioning and provision of relevant feedback is important. The aim of the research is to acquaint the internal auditor with the rules of verbal and non-verbal communication in order to achieve a certain understanding and build the necessary trust in the business relationship. The results of the research will show that auditors must possess active listening skills and cultivate an assertive communication style. The paper provides models that the internal auditor should use when managing conflict situations and difficult conversations, as well as a model of organizing the internal audit department in the firm.

Keywords: communication skills, internal audit, conflict management, difficult conversations, model of organizing internal audit

1. INTRODUCTION

Internal auditors are a highly-qualified professional group, possessing both knowledge and skills which were acquired throughout their professional life and used when performing their professional duties. The skills which are most useful in the work of an internal auditor include technical skills such as the ability to think critically, analytical skills, the ability to conduct risk analysis, defining and solving problems, organizational skills, but also soft skills, among which communication skills are most often mentioned.

Communication is becoming more and more appreciated by internal auditors as a professional competence. Its importance stems both from the changing paradigm of internal audit and the role of the auditor, as well as the evolution of the communication itself, gradually shifting towards on-line communication and social media.

2. ORGANIZATIONAL MODEL OF INTERNAL AUDIT IN AN ORGANIZATION

To better understand the place of internal audit in the organizational chart of the company, it is necessary to know the differences between the concepts of control, audit, analysis and internal audit in order to understand the organizational structure of the company, as well as internal audit departments and relations.

Table No. 1: Subject of study and distinguishing points of control, analysis, external audit and internal audit: [1]

Activities- functions	→ Control	Audit	Internal audit[†]	Analysis
Delimitation				

elements ↓				
Postulated (tenets)	Unpredictability of deviations from standards (measures)	Deviation from or compliance with the law and standardized accounting regulations	Deviation from or compliance with the law, professional and internal regulations	Rationality (Integrity)
Test methods and techniques	Special methods and techniques of analysis	Established (standardized) sizes Observing deviations of the actual from the predicted size	Special methods and techniques of internal audit	Method of direction, intensity, volume and continuity Sample method
Mode of operation	Mechanistic and preventive	Individual, intellectual and corrective	Collective, intellectual, preventive and corrective	Individual, intellectual, preventive and corrective
Subject and type of research	Unity in business activity Formal	Financial reports Formal and material	Alternative growth and development policies of the company Formal and material	Unity in business activity Material (essential)
Performing activities (executors)	Internally	Externally and internally	Internally	Internally

Human capital [2], that is, auditors are the most important assets of audit firms companies, but this also applies to firms that are interested in having the highest quality internal auditors. It should be noted that not only companies are interested in quality auditors, but also the public shows interest that companies have the appropriate number of auditors with the necessary competencies and professional characteristics, all in order to increase the general social interest.

The literature [3] points out that the mission of the internal audit department is twofold:

- to provide independent assurance to the audit committee (commission) and senior management that there are internal controls in the company and that they function effectively;
- to improve the state of internal controls in the company by improving internal controls and helping the company to identify the shortcomings of the control system and to develop cost-effective solutions to eliminate these shortcomings.

The form of organizing internal audit is directly dependent on the model of organizational structure, because as the model (form) of organizational structure is set, it is directly followed by the form of organizing internal audit. In the literature [4] in the field of organization, two classifications of organizational models are most often given, depending on the criteria that are emphasized by individual authors, so we have:

- starting from the parameters of departmentalization differs:
 - a) functional model of organizational structure implies grouping of jobs according to similarity with the formation of organizational units of procurement, sales, production, finance, which represent the base of the model;
 - b) divisional model of organizational structure which represents the grouping of jobs according to the chosen market criterion, which can be a product, customer, region, and in this way an organization is formed which is divided into divisions as relatively independent and autonomous units;
 - c) matrix model of organizational structure is created as a derived form of functional and divisional model, by forming matrix teams of functional specialists for specific tasks related to the operations of divisions.
- starting from the fact which of the five groups of jobs dominates the organizational structure of Henry Mintzberg:
 - a) a simple structure dominated by a strategic top, is characteristic of small entrepreneurial organizations where informal relations dominate with authority that is centralized in one individual;

- b) machine bureaucracy or bureaucratic model is characteristic of the conditions of a large organization and complex conditions (environment, age of the organization, technology), with clear lines of authority, dominated by a group of jobs of technostuctures;
- c) professional bureaucracy or professional model is a model of organization where authority is in the hands of a limited number of professionals, and the dominant group of jobs in the organization is the operative;
- d) a divisional model in which the middle line of management dominates and such a model is characteristic of large organizations with numerous divisions;
- e) adhocratism is a model used in a dynamic environment when innovation and learning are critical factors for the survival of the organization and can take the form of a parent, innovative or team structure where a group of individuals dominates, or where experts are dominant.

When managers form a new organizational scheme or rearrange the existing one, they always use four measures: [5]

- a) division of labor - the whole work process is divided into tasks that could realistically and without undue effort be performed by individuals or groups;
- b) division into sectors - forming a group of workers and tasks by combining them in a logical and efficient way;
- c) hierarchy - means specifying who will report internally within the relevant sectors;

coordination - mechanisms are set up that will integrate the activities of individual sectors into a coherent whole and monitor the effectiveness of this integration.

These four elements are also valid when setting up or reengineering the place of internal audit in the organizational chart of the company.

Internal auditors are often described as business partners and as police officers. [6] As business partners, they help the management together with the management bodies and serve as independent management reviewers. Internal auditors are expected to be professional and to assist the company in meeting its objectives. The reason for observing the internal auditor as a police officer lies in the fact that he is seen as an opponent who is looking for omissions in his work. It should be noted that the role of internal audit is not to detect fraud and embezzlement, but for this task requires special experts, i.e. experts to detect and prevent fraud and embezzlement, such as CFE (Certified Fraud Examiners).

Traditionally [7], the management is responsible for reviewing bids for auditing, negotiating fees for auditors, concluding contracts with the audit company. All of these powers in the hands of management may affect the independence of the auditor in performing the audit. The solution is for the auditor to be chosen by the business owners, but there is a problem of how to act when independence occurs, whether it is always possible to gather all the owners who are usually heterogeneous and dislocated. This problem is overcome by forming representative bodies that monitor the work of management and make decisions. These bodies include the board of directors, the supervisory board and the audit committee. When certain companies do not have an audit committee, these tasks can be performed by other representative bodies, which we can see from the organizational schemes given below.

The position of internal audit in the organizational structure of the company varies depending on its responsibility to the company's management, i.e. to whom the internal auditors report. Thus, an internal audit can be organized in the following ways: [8]

- within accounting - this model of positioning internal audit by time of creation is one of the first models and is well overcome, because when internal audit is organized in this way, no audit can be performed outside this function, and the audit report is submitted to the head of accounting or at best the financial director of the company;
- within finance - this model of internal audit positioning represents an improvement of the previous model and appeared when the financial function became independent from accounting. It is known that finances in a broader sense of the word encroach on all business functions of the company, so the internal audit has expanded its scope to all business functions whose quality is recognizable if it reports on its jobs and tasks to the general manager. It should be emphasized that the "heart" of internal audit operations is now only in finance. The question is whether this is the transition of internal audit only to a "larger room for maneuver" with the same scope;
- within an independent organizational unit related to the board of directors - this model of organizing internal audit implies that it reports to the board of directors of the company through the audit board (audit committee), the director of internal audit and the auditor, that is, he submits reports to him. This model of internal audit is not limited in any way and the organization and mission of internal audit are defined by the Rulebook on Internal Audit, then there is a statement on internal audit. Bearing in mind that this, in our opinion, is one of the most adequate solutions for positioning internal audit in the company, we will insist on this model of organizing internal audit, taking into account the fact that this model contributes to the

highest level of internal auditor independence, contributes to the highest level of independence of the internal auditor, noting that he as long as he is a member of the company cannot be completely independent (he, like all employees he works with, may sit in the same building has benefits, bonuses), but can be objective, that is, it is not influenced by personal feelings or prejudices, it is impartial.

When organizing internal audit, we must also keep in mind the Internal Audit Standards issued by the Institute of Internal Auditors. Namely, according to them, more precisely in the standard 1110 Organizational independence [9], it is required to confirm at least once a year that the internal audit in the company is set so that it is organizationally independent. We conclude that it is not enough just to have organizational independence, but it is also necessary to confirm it annually. For the confirmation of organizational independence, the best solution is for the external auditor to emphasize the existence of organizational independence and confirm it in the year in which it performs the audit.

2. COMMUNICATION SKILLS OF INTERNAL AUDITORS

Part of the 2010 CBOK study¹ points to five core competencies of internal auditors: problem identification and resolution skills, communication skills, monitoring regulatory changes and professional standards, understanding business as a solid basis for identifying new risks and controlling and managing company risk, as well as performing audits based on risk planning [10]. At the same time, communication skills are highly rated.

Possession of communication skills ensures internal auditors to implement positive changes in the organization. The Research Foundation (IARF) [11] explains that “personal skills such as e.g. communication, persuasion, cooperation and critical thinking are important so that the information, observations and recommendations identified on the basis of technical expertise have an appropriate impact on the organization”. Effective communication skills go beyond well-written reports and verbal communication skills. It is necessary to maintain a constant and two-way dialogue (i.e. conversation and listening), formally and informally, with all interlocutors in the organization for the purpose of effective internal audit.

2.1. Verbal and non-verbal communication

Verbal communication is the exchange of messages through speech or words. It can be spoken and written and is based on two basic communication skills: listening and speaking. Grace cited four conversational rules that people adhere to in mutual conversation: [12]

- Quality rule: Say something you think is true and not say something you have no arguments for;
- Quantity rule: Strive to be informative as much as the purpose of the conversation dictates, no less and no more;
- Relevance rule: Stick to what is relevant to the topic and do not go into irrelevant stories;
- Way rule: Try to communicate what you want in an understandable way, avoid vagueness and ambiguities.

Written communication is also assessed as very important in internal audit. In order for the audit report to fulfill its purpose, it is necessary to have writing skills that convey a concrete and clear message with as few and as few selected words as possible [13]. In addition to conveying the facts, the report should indicate trust and credibility, as well as provide an understanding of the impact of the report's findings and recommendations on a particular part of the business. The advantage of written communication is that it is well thought out and planned in advance, and it remains a permanent record. At the same time, it enables transparency, clarity, and completeness. The message can be formatted to the desired level thus reducing the possibility of error.

Gathering information is an essential part of the audit work because the auditor spends a lot of time establishing the facts. The starting point for establishing the facts is simply asking questions, and that is the importance of interviewing. An audit interview is a means of gathering facts, opinions and ideas, and is therefore an important source of audit evidence [13].

The process includes the following key steps: preparation for the interview (includes review of files, documents, interviews with auditors who have some relevant knowledge ()). It is necessary to determine the time and date of the interview, of course in agreement with the interlocutors. Next, it is important to make a checklist of the areas to be covered in the interview. This checklist can be submitted to the interlocutor in advance so that he can make

¹ Common Body of Knowledge in Internal Auditing (CBOK). (2010), Core Competencies for Today's Internal Auditor. Altamonte Springs, FL: Institute of Internal Auditors.

preparations that will speed up the process. The next important stage is to state the precise goals of the meeting. There is a danger that the interlocutors are present more because of their desire to fulfill their duty, and not with any belief that they can benefit from such a discussion. Explaining the goals of the meeting should remove this psychological barrier and allow the free flow of information in both directions. The tone of the interview should be open, friendly and positive. Introductory comments are commonly known as “ice-breaking” and involve focusing on neutral topics, in order to develop some form of direct relationship.

Questions and discussions follow. Research shows that the possibility of directing conversations is far greater than many assume. If we want to have more control over what is being said, we should limit ourselves to nine possible ways of directing the conversation: looking for ideas; proposing ideas; suggesting, i.e. proposing ideas in the form of questions; developing someone else's idea; explicitly expressing disagreement with something the interlocutor said; support; pointing out difficulties; seeking clarification and providing information, opinions and explanations. Each of these ways of speaking behaves has different effects on the interlocutor and can be useful in one situation and very inappropriate in another. Therefore, before choosing the most appropriate way of verbal behavior, one should consider the listed alternatives that are available. At the end of the interview, the internal auditor allows the interlocutor to reflect on what has been said and ask general questions [14]. It is not acceptable for the interlocutor to be upset after the interview.

Non-verbal communication includes kinesic, proxemic, paralinguistic communication and haptic.

Proxemics studies the distance between communicators, the use of space and territoriality. In relation to the environment, a person establishes four invisible borders, which we call communication zones: intimate zone: 0-50cm, personal zone: 50cm-120cm (in conversations between good friends), social-consulting zone: 120cm-3m (for conversations between acquaintances - at social or business type meetings), public zone: 3m and more (distance in public speeches or performances). In this regard, the internal auditor must respect the necessary distance depending on whether he is in face-to-face communication or presents his audit report to a large number of people.

Another aspect of non-verbal communication is the field of paralinguistics. This includes non-verbal sounds that we create while talking. Paralinguistics primarily deals with: intonation, tone of voice, tempo, vocal noise, and pause. Depending on how we pronounce the words, communication can be friendly, polite, informative, instructive and convincing. It can also be aggressive, condescending and annoying [14].

Haptics can be defined as a tactile segment of communication, i.e. touching the interlocutor during communication, and is also conditioned by situational factors, social norms, personal characteristics, the degree of intimacy between the interlocutors, culture.

Kinesic communication involves gestures, facial expressions, posture (body position). Non-verbal communication often complements verbal communication, that is, it is combined with it. However, there can easily be discrepancies between verbal and non-verbal communication and the internal auditor should monitor this.

2.2. Active listening

Active listening, unlike passive listening, is a way of communication that allows us to hear, understand and experience the content as the interlocutor experiences it, and at the same time, in mutual interaction, feedback on understanding and comprehending the message is very important. Active listening involves directing attention, interpreting and remembering what was heard. Attention is paid to the entire communication of the interlocutor, which, in addition to verbal messages, also includes his body language, that is, non-verbal messages. In order to let the interlocutor know that we are really listening to him, it is important to send him feedback. Feedback is a verbal or non-verbal response to someone's behavior, whereby the interlocutor is sent information on how much and in what way we understood what he was telling us.

The principles of active listening are:

- Asking open-ended questions - These are questions that can be answered by stating a specific fact.
- Paraphrasing - It means repeating in your own words what we heard from the interlocutor, but without changing and distorting the basic meaning. The goal is to check that we have correctly understood the other person's message. We also give the interlocutor the opportunity to hear how what he thinks and claims sounds from the point of view of the person who listened to him carefully.
- Summary – this is a focused and very abbreviated statement of basic facts, ideas or theses communicated by the interlocutor. The goal of summarizing is to separate the important from the irrelevant, direct the flow of the conversation and make it easier to follow the discussion.
- Re-framing – it is the process by which we reformulate another person's statement so as to avoid any form of negative or offensive speech. In this case, our goal is to frame some insulting statement or negative remark about someone's opinion so that it becomes constructive criticism.

- Reflection of feelings and meanings – it includes short sentences about the content of the previous statement of the interlocutor, with special emphasis on expressed emotions; a technique applied when feelings and facts are connected in one answer.
- Evaluating the attitude of the speaker which is manifested through the respect of the speaker.

2.3. Communication styles and conflict management

It is also very important that internal auditors use an assertive communication style. Assertive communication style is characterized by the ability to express thoughts, attitudes and emotions without compromising the rights of others. This style helps us to function better in all spheres of life, to reduce stress, to express our disagreement without 'falling' into unconstructive conflicts, to cope with awkward situations and deal with 'difficult' people, to avoid manipulation. In addition to this style, which is constructive, one of the following communication styles that are destructive can often be recognized by the interlocutor.

People with an aggressive style of communication most often express their thoughts and feelings in a way that is socially unacceptable and manipulative with the goal of establishing control over others or demonstrating power. Also, an aggressive style is characterized by a loud way of speaking or shouting, an attempt to establish control over interlocutors by intimidation, criticism, blaming, or attacking. Aggressive communicators usually command and do not listen to their interlocutors. This way of communicating can be successful in the short term, but in the long run it causes mistrust, fear and hatred among co-workers, employees and others.

People with a passive style of communication avoid expressing their opinions, attitudes and emotions in order to avoid conflict. Passive communicators in communication are vague, indecisive, avoid conflicts and consider their opinion less valuable than others. In this way, very little or nothing is achieved, respect for others is lost and self-esteem is lost.

Passive-aggressive style of communication is characterized by indirect aggression, passive opposition to the demands of the work and social environment. It is accompanied by procrastination and inefficiency. Passive-aggressive communicators use ironic and sarcastic remarks and manipulation as the main means of communication and often feel unable to face the source of the problem directly.

Most often, internal auditors routinely deal with organizational conflicts. Disagreements may arise during negotiations with management about the implementation of the auditor's recommendation or for simpler reasons such as the wording in the audit report. We often find five styles of conflict behavior in the literature:

- Cooperation between the conflicting parties, i.e. openness, exchange of information and analysis of differences in order to reach a solution that is acceptable to both parties. Prerequisites for solving the problem are open communication that overcomes misunderstandings and analysis of the causes of conflict;
- Adaptation as an attempt to show the differences between the parties as small as possible and to emphasize similarities in order to satisfy the interests of the other party;
- Bidding characterized by win / lose orientation. Dominant people do everything to achieve their goals, often at the expense of the interests of others;
- Avoidance, that is withdrawing from a conflict situation or postponing the problem until a "better moment";
- When compromising, both parties need to give up something in order to reach a mutually acceptable decision [15].

Avoidance as a conflict resolution strategy in internal audit cannot be applied. If the internal auditor identifies a problem in the company, he cannot bypass it, hide it or otherwise ignore it. The internal auditor can use collaboration as a style of behavior in conflicts. Auditors should feel that internal auditors show a genuine interest in helping the organization to improve. Sometimes audit subjects are reluctant to apply the auditor's suggestions because they do not understand why the change is necessary and important. Referring the auditee to the importance of making changes can help individuals embrace new ways of working that will benefit the organization. Internal auditors sometimes make the mistake of identifying a problem and offering a solution. Instead, auditors should explain the problem and ask auditees for their opinion on the best possible solutions.

Changes are more likely to occur if audit subjects provide their ideas for solving the problem. Compromise can also be helpful. When properly managed, both sides in the conflict can be satisfied. The auditor should strive to anticipate and understand all possible sources of conflict, listen carefully to the views of the auditee, and consider all viable resolution options prior to negotiation. The more options that can be identified, the more likely it is that both parties will benefit from the negotiation process. Competition is rarely a good strategy for solving group problems. Sometimes the best way to resolve a conflict is to find a way to avoid it. If conflict is inevitable, auditors should recognize the positive effects of conflict, make the right compromises when needed, learn to negotiate, seek

management support, and avoid a sense of responsibility for other people's problems. Conflicts take different forms and can occur when least expected. [16]

3. CONCLUSION

The form of organizing internal audit is directly dependent on the model of organizational structure, because as the model (form) of organizational structure is set, it is directly followed by the form of organizing internal audit. The position of internal audit in the organizational structure of the company varies depending on its responsibility to the company's management, ie to whom the internal auditors report. Internal auditors are expected to be professional and to assist the company in meeting its objectives. The role of internal audit is not to detect fraud and embezzlement.

Possession of communication skills ensures internal auditors to implement positive changes in the organization. Successful internal audit activities require verbal (oral and written) communication skills. Good preparation of the auditor for interviews, effective questioning and provision of relevant feedback is also important. Auditors should possess active listening skills and cultivate an assertive communication style. All of the above skills are necessary for internal audit to be effective.

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ⁱ Line six is added by the author.