

EVALUATION SYSTEM OF THE INTERNAL AUDITORS

Ing. Jana Namešanská, Ph.D.

Katedra bezpečnosti a kvality produkcie, Strojnícka fakulta, TU v Košiciach

Abstract

Nowadays a majority of the organisations is certified according to a norm ISO 9001:2008. The regular execution of the internal audits is one of the conditions of this norm. It is necessary to have good trained and skilled auditors for the appropriate audit executions. It is also necessary to evaluate these auditors because of their efficiency determination and their own improving. There are several procedures for the evaluation of internal auditors and it is up to every single organisation, which procedure will be applied. The biggest problem is the achievement of the fair and unbiased evaluation.

Key words

The auditor, the internal auditor, the evaluation of internal auditors

Introduction

The auditors are persons competent to execute the audit [1]. One of the main and basic tasks is the building, sustaining and improving one's own competence via permanent professional growth and regular attendance on the audits. Permanent professional growth is related to sustaining and improving the knowledge, skills and personal characteristics. It is to be reached via means, such as the further working experience, training, participation and attendance on the sessions and seminars. The auditors are supposed to prove their own permanent professional growth.

Auditor's code of ethics determines the observance of the criteria, such as objectivity, professional competence, confidentiality of information, professional behaviour, using professional standards and independence.

Evaluation of the internal auditors in general

The evaluation of auditors and the evaluation of leading auditorial teams is supposed to be planned, established and recorded in accordance with the procedures within the audit's schedule and thus the objectivity, consistency and honesty of the evaluation will be proved. The evaluation process should reveal a need of further preparation and improvement of the auditors' skills.

The evaluation of the auditors could be:

- initial evaluation (the evaluation of the persons interested in becoming the auditor),
- selective evaluation (carried out as a part of the process of auditorial team's selection),
- continuous evaluation (within this evaluation the auditors' performance should be studied and thus should be found out whether the auditors improve their knowledge and skills) [2].

The evaluation process of the auditors consists of four steps [2]:

Step 1: defining the personal characteristics, knowledge and skills necessary for fulfilling the needs of audit's schedule.

By defining these characteristics should be ensured that for the execution of the audit should be chosen the right person. When judging knowledge and skills of the auditors, it is necessary to consider the following:

- the size, nature and complexity of the organisation where the audit is to be executed,
- the aims and the extent of the audit's schedule,
- the claims of the certification (the registration and accreditation),
- the role of the audit's process in the management of the organisation,
- the level of the credibility the audit's programm needs
- the complexity of the management system.

Step 2: defining the criteria of the evaluation.

It is possible to devide the criteria of the evaluation into two groups i.e. according to quality and quantity. Quantity includes the years of experience, number of executed audits etc.. Quality on the other hand, includes the demonstrated personal characteristics, knowledge and skills.

Step 3: The choice of an appropriate evaluation method.

There are several ways and methods of the auditors' evaluation. It can be used only one method or several methods at once – combined methods (table 1). This evaluation can be executed by one person or by the commission compound of several persons qualified to execute such an evaluation. It can be used only one method or several methods of the evaluation.

Step 4: the execution of the evaluation.

The collected information about the person are compared with the criteria given in Step 2. If the person does not meet the criteria, for increasing his/her experience is necessary the further preparation and work. After such a preparation it is recommended to execute another evaluation for judging its efficiency.

Evaluation of the internal auditors in practice

There are different ways of the evaluation of the internal auditors in practice. The following analyzed evaluation takes place in real conditions by the producer of white goods. It is devided into four parts. This evaluation will be closely presented and analyzed in the following lines. The improvements will be suggested as well.

The description of the current evaluation of the internal auditors and its modification

The first part of the evaluation form includes 7 questions (Obr. 1). Each question has several possible answers you can choose from. By marking the box with "x" you choose the appropriate answer. Each answer has relevant number of points given. The whole evaluation is calculated and processed by MS Excel.

These seven questions can be divided into two groups [3]:

- Group 1 – question 1 to 5 – this group is concerned mainly with education, practice of the auditor and his/her skills.

- Group 2 – question 6 to 7 – this group is concerned with the evaluation of the auditor by the auditorial team and the audited area, thus with his/her personal qualities and characteristics.

Point evaluation:

It is possible to gain points for questions No. 1, 2, 3, 4, 6 and 7. For the first chosen answer you can have 1 point, for the second 3 points and for the third 5 points.

For the question No. 5: as a head auditor you can have 5 points, as internal auditor 3 points (by each management system).

1. Education	<input type="checkbox"/> High-school	<input type="checkbox"/> Academic	<input type="checkbox"/> Postgradual
2. Experience in auditing (time)	<input type="checkbox"/> < 2 years	<input type="checkbox"/> from 2 to 5 years	<input type="checkbox"/> > 5 years
3. Experience in auditing (types of audits)	<input type="checkbox"/> 1. side	<input type="checkbox"/> 2. side	<input type="checkbox"/> 3. side
4. The attendance on the internal audits during last 2 years	<input type="checkbox"/> < 2 times	<input type="checkbox"/> from 2 to 5 times	<input type="checkbox"/> > 5 times
5. International standards qualification	ISO 9001	ISO 14001	OHSAS 18001
	<input type="checkbox"/> Head auditor	<input type="checkbox"/> Head auditor	<input type="checkbox"/> Head auditor
	<input type="checkbox"/> Internal auditor	<input type="checkbox"/> Internal auditor	<input type="checkbox"/> Internal auditor
6. The evaluation by the auditorial team	<input type="checkbox"/> Weak	<input type="checkbox"/> Good	<input type="checkbox"/> Excellent
7. The evaluation by the audited area	<input type="checkbox"/> Weak	<input type="checkbox"/> Good	<input type="checkbox"/> Excellent

Fig. 1 The evaluation form (part 1)

The second part of the evaluation form consists of the table with points achieved by the auditor and the maximum points for each question (an example is given in Table 1). This evaluation table was designed by the leaders of the organisation, but it does not reflect the reality. The number of points achieved out of maximum number for each question has its percentage in the fourth column. The average result is made out of all the proportional figures also in percentage. But it is incorrect, because the average result out of average values does not reflect the number of achieved points.

Tab. 1 An example of the evaluation table (part 2) - incorrect calculation

Question No.	Evaluation	The highest score	%
1	3	5	60
2	3	5	60
3	1	5	20
4	1	5	20
5	8	24	33
6	3	5	60
7	3	5	60
Result			44.71 %

INCORRECT

$$Průměr = \frac{(60 + 60 + 20 + 20 + 33 + 60 + 60)}{7} \times 100 = 44,71 \%$$

The additional data - the sum of points of the achieved evaluation and the sum of maximum possible points in the table are missing. The calculated average reflects the real value of the achieved percentage (Tab. 2).

Tab. 2 An example of the evaluation table (part 2) - correct calculation

Question No.	Evaluation	The highest score	%
1	3	5	60
2	3	5	60
3	1	5	20
4	1	5	20
5	8	24	33
6	3	5	60
7	3	5	60
Result	22	54	40.74 %

CORRECT

$$Průměr = \frac{3 + 3 + 1 + 1 + 8 + 3 + 3}{5 + 5 + 5 + 5 + 21 + 5 + 5} = \frac{22}{54} \times 100 = 40,74 \%$$

The third and fourth parts of the evaluation form consist of the questionnaires (Tab. 3 a 4). The auditorial team and the audited area evaluate the auditor on the basis of five questions with four possible answers. There is a space for a commentary or a note, a date and a name of the auditor under the table.

Tab. 3 The evaluation carried out by the team of auditors (part 3)

Question No.	Question	Excellent	Good	Weak
1.	How do you judge the behaviour of the auditor?			
2.	How did the auditor hold a conversation and gained your trust?			
3.	How do you judge the ability of the auditor to analyze the complicated situations?			
4.	How do you judge the knowledge of the auditor about the claims of the norm?			
5.	How do you judge the skills of the auditor to work in a team?			

One of the four possible answers for each question will be marked by “x” and each answer has its particular percentage:

- excellent – 20 %,
- good – 13 %,
- weak – 7 %,

The average of all five answers will be calculated and the particular percentage achieved by the auditor will evaluate him/her respectively as follows:

- excellent - if achieved 86 – 100 % in the third part of the evaluation form,
- good - if achieved 51 – 85 % in the third part of the evaluation form,
- weak - if achieved 0 – 50 % in the third part of the evaluation form,

This evaluation is then marked also in the first part of the evaluation form, thus in question 6 and 7.

The addition and modification of the first part of the evaluation form

The first part of the evaluation form distinguishes between two positions “only” - internal auditor or head auditor within the particular management systems. Therefore it is appropriate to add additional questions concerning only the head auditors, because this position breeds not only wider powers, but also responsibilities.

The additional question 8 (in the first part of the evaluation form):

The performance of the auditorial program (only for the head auditors)

- time delay > a week (1 point)
- time delay < a week (3 points)
- fulfilment on time (5 points)

The additional question 9 (in the first part of the evaluation form):

Does the report from the audit contain all the requirements and does it reflect the reality? (only for the head auditors)

- Yes (5 points)
- No (1 point)

The suggested evaluation method was applied in the organisation on the sample of 12 internal auditors (fig. 2).

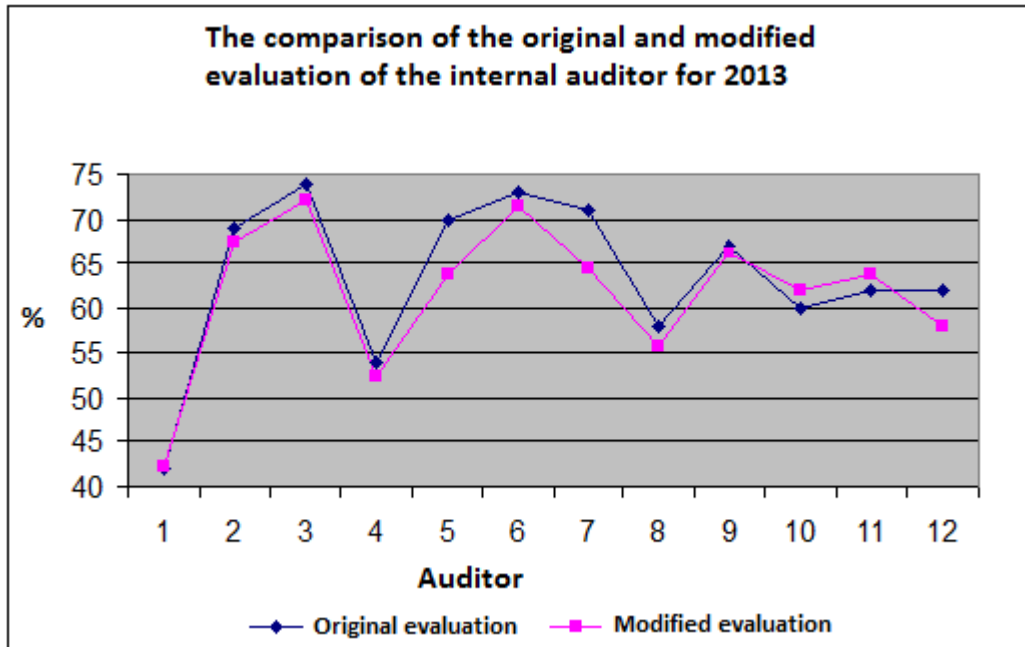


Fig. 2 The comparison of the original and modified evaluation of the internal auditors for 2013

It follows from the chart, that the majority of the auditors achieved, according to the suggested evaluation, the lower percentage in comparison with the original one. It is mainly because the previous evaluation was not objective or unbiased and its evaluation result was calculated as the average value from the average of all the questions. Hence, it distorted the main result to be better. This modified evaluation form offers more objective view on the evaluation of the internal auditors.

Conclusion

The evaluation of the auditors is important for a choice of the right person for the position of an auditor, but also for the regular evaluation, when the improving of the auditor, his/her working on him/herself or failing is to be proved. There are several procedures for the efficiency evaluation of the internal auditors. This article has brought one method - the method used by the producer of white goods. This method had a lot of analyzed imperfections and there were suggested another measures for their elimination. The comparison of the original and modified method referring to the difference between them was executed on the sample of twelve auditors in the end of the evaluation.

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Lektoroval:

doc. Ing. Katarína Teplická, Ph.D.