THE IMPACT OF INFORMATION TECHNOLOGY (IT) ON INTERNAL AUDITING: A CASE OF ZIMBABWEAN TEXTILE INDUSTRIES (2010 – 2013)

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Abstract

The research study sought to determine the effectiveness of IT auditing on internal auditing. The main objective of the study was to analyze the impact of IT on internal auditing. A mixed methodology was used by utilizing quantitative and qualitative methodologies. Interviews and questionnaires were used for data collection. The target population constituted of IT staff, accountants, auditors and management. A sample size of 59 was drawn using simple random sampling. The research found out that information technology had a positive impact on the evaluation of controls and advising managers at all levels. IT auditing was found effective in corporate evaluation of risk. The researchers recommended that the sector should continuously train staff on IT auditing processes.

Keywords: information technology, internal audit, textile and impact.

Background of the Study

The IT departments stored various types of data and information. Before the installation of software, transactions were done the traditional way, that is, the manual system. The change over to the computerized system was a big challenge since most of the employees were computer illiterate and some of them could not use a computer. This made it difficult for the internal

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auditors to compile their reports accurately. Since the installation of computer software data was summarized with previews of pivot-table options, for easy of comparison yet some employees found it difficult to come up with properly compiled updates. The internal auditor needed properly compiled reports so that they could take less time in their compilation. The auditor's report depended on the data which the employees inputted.

Contributing to these factors was the absence of accounting standards to educate relevant auditors in performing audit task and mitigate organizational risk. When the external auditors came in for the auditing process, the companies failed to provide information required for the external auditing process. Despite the fact that the companies had managed to install computers in every department, this was not helping much because most of the employees were computer illiterate. However, the companies had embarked on in-house training to educate the employees on how to use the computers.The researchers thus saw this disparity and decided to explore and recommend a mechanism to help textile enterprises utilize information technology facilities.

Statement of the Problem

It was common in business that the role of internal auditors was not well communicated to the workforce. There were no specific guidelines available to ensure that IT impact was a success factor. IT auditing and accounting standards were expected to reduce negative effects.

Purpose of Study

The objectives of this study were to:

- Identify the benefits of IT audit
- Suggest solutions to IT audit challenges
- Determine the competences and skills of internal auditors in IT auditing.

Literature Review

According to Lesser (2013), internal auditors received considerable exposure to IT systems. IT played fundamental role in the way modern organizations function, and it became integrated to every type of audit. The author suggested that the integration of applications and enterprise wide information systems was a key trend for the future and had a great impact in the entire set of

knowledge, skills, methods, algorithms and strategies of internal auditors. Accordingly, the audit practitioners were required to expand their skill sets and knowledge bases in order to cope not only with current changes, but also with future challenges.

Saunders and Lewis (2013) argued that internal auditors were struggling to maintain their identity and purposes as the companies the audit underwent radical changes. Advances in IT continuously rendered control procedures obsolete; and the 'value' of traditional internal audit became seriously questioned. As IT changes occurred more quickly, auditors kept pace with emerging technological changes and their impacts on their client's data processing system, as well as their own audit procedures (Saunders and Lewis 2013).

Romney and Steinbart (2011) argued that the overall quality of various internal controls facilitated to a great extent the internal auditing of business systems applications in general. The author continued to say that IT audit could be performed for small sized systems by auditing the end products, assuming that the internal controls were well placed.

Watt (2011) surveyed 86 accountants, internal auditors and certified fraud examiners examining the extent to which they used fraud prevention and detection methods and their perceptions of the effectiveness of these methods. The results indicated that firewalls, virus and password protection, internal control review and improvement were quite commonly used to combat fraud. However continuous auditing, discovery sampling, data mining, forensic accountanting and digital analysis software were less often used despite receiving high ratings of effectiveness due to lack of organization resources and their reluctance to invest in fraud prevention and detection control systems.

Another study was carried out by Simkin (2010) who surveyed 241 chief executive officers (CEOs) soliciting for their opinions on internal audit's involvement in systems development. The results of the study revealed that CEOs were more concerned with the internal audit function remaining independent than with auditors acting as consultants to an organization. The respondents were essentially different regarding internal audits involvement in the planning and design phases and did not support internal audit involvement in development, implementation

and maintenance phases. The results of the comparison of the perceptions between CEOs and chief audit executives (CAEs) show that they were significant differences between the groups regarding their expectations. CEOs placed more importance on independence while CAEs emphasized the need for internal auditors acting as consultants.

Research Design and Methodology

A mixed research approach was adopted in this study. The researchers used both qualitative and quantitative research methods. This was done to triangulate the research methods so as to increase the validity of the findings. The researchers adopted descriptive research design. Interviews and questionnaires were used in data collection. A stratified sample of 59 respondents was used.

Results and Discussions

Most of the respondents suggested that IT resulted in the emergence of complex information system environments that required a different approach to auditing compared to traditional systems so that they would be able to give a fair opinion. The identification of the function performed by the organization in the achievement of its strategic objectives, and the breaking down into individual tasks and related risks and the control procedures built in to mitigate these risks were important.

More than half of the respondents strongly agreed that IT auditing had impact on new market demands and only 5% disagreed. The researcher then concluded that IT auditing had impact on new market demand on IT related auditing. However the systems required protection as suggested by Watt (2011).

Respondents mentioned that IT, accounting and auditing departments were important in achieving an effective auditing function in the textile industry. This clearly showed that all the three departments were complimenting each other in achieving the company success. This was a better approach to what Simkin et al (2010) found out. Separatist approach could bring negative effects to the industry.

The majority of respondents highlighted that IT auditing kept the internal auditing function up to date with the changing needs of auditing and made it more comprehensive to produce better audit results. They also concluded that IT auditing was very effective as a means for carrying out internal auditing as it reduced the manipulation of facts. The management said that IT auditing has enabled the textile industry to improve its performance both operationally and financially. The system used by the companies in IT auditing enabled them to improve the internal auditing exercises. This finding was supported by Romney (2011).

From the data gathered respondents articulated that the role of internal auditors had become even more significant considering the changes that have been brought up by the introduction of IT auditing. Employment of internal auditors who with strong IT skills resulted in increased productivity. They were able to solve teething problems. This was supported by Saunders and Lewis (2013) and Lesser (2013).

Findings

The following findings were concluded by the researchers:

All the three departments IT, accounting and auditing played a very pivotal role in the success of the internal auditing function in the textile industry. All these three departments contributed to the success of the internal audit function. The auditors needed the IT personnel expertise in installation, maintenance and updating of the software packages.

Internal auditing contributed to the effective safeguarding of company assets through the exposure of risks and other weak areas within the industry. The reinforcement of the company corporate policies and its monitoring by the internal auditing function reduced the cases of fraud and corporate misconducts.

The IT auditing used by the textile industry had a positive impact on the performance of the companies. It was found to be effective in evaluating controls and advising management. Compliance to company rules and regulations were continuously monitored and reviewed reducing the corporate risks and exposures.

Recommendations

The researchers made the following recommendations in line with the above findings.

The audit personnel should be subjected to continuous training given the rate of technological change taking place in the world over. To gain new skills and knowledge on new functions and IT version there is need that the staff receive necessary training. The industry should continue maintain a highly qualified staff such that it does not retard its performance in terms of assessing risk and mitigation of those risks.

The IT departments should continuously work together with the auditing departments in order to come up with improved audit systems that do not expose the company assets but minimise any gaps that could exist.

It is envisaged that a similar research focusing on the auditing profession be carried out on a broader scale in other industrial sectors.

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