

FINANCIAL STATEMENT AUDIT AND INTERNAL AUDIT IN THE ACCOUNTING SYSTEMS OF SMALL ENTITIES: THE AREA OF OPERATING COSTS

DOI: 10.2478/czoto-2026-0023

Received: 28/01/2026

Accepted: 22/06/2026

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Abstract: This article contributes to research on identifying potential areas for improving accounting, audit and review systems, which can support managers in enhancing cost efficiency and the quality of financial statements. The discussion is divided into three main parts: theoretical, methodological and empirical. The first part presents the theoretical foundations of financial audit, outlines the conceptual assumptions of internal audit, and discusses the relationships between financial audit and internal audit. Subsequently, operating activity costs are examined as a key area of financial audit and internal audit in the functioning of a small entity. In this context, the aim of the study is to investigate the degree of difficulty small entities face in the proper identification and valuation of operating activity costs, according to the opinions of statutory auditors, and to assess the role of internal audit in eliminating cost errors before conducting the financial audit. The considerations are based on empirical research using statistical analysis of survey data with Pearson correlation, which made it possible to examine the relationships between the perceived level of difficulty small entities experience in identifying and valuing operating activity costs and the assessment of the role of internal audit in eliminating these errors. Our findings suggest that combining the perspectives of financial audit and internal audit in the analysis of operating activity costs can effectively reduce the risk of errors and irregularities, particularly in the accounting of small entities. The topic of financial audit and internal audit in the accounting of small entities is important and timely, as it enables a better understanding of the complementarity of both audit functions and enhances the quality of financial information in enterprise management.

Keywords: financial audit, internal audit, enterprise accounting, business management.

1. INTRODUCTION

Accounting in small business entities constitutes an important component of a company's information system. However, due to limited human, financial, and organizational



resources, these entities are particularly exposed to errors in the recording and valuation of business transactions. The literature emphasizes that small enterprises often operate under simplified accounting procedures, which reduces the level of formalization of control processes and increases their susceptibility to irregularities and inaccuracies (Winiarska, 2017; Sobańska, Wnuk, 2020). One of the areas that is particularly sensitive to the quality of financial reporting is operating activity costs, which represent a key determinant of financial performance. Their proper identification, measurement, and classification are essential for assessing the efficiency of business operations and for making rational managerial decisions (Nowak, 2018).

In this context, financial auditing and internal auditing play a fundamental role in ensuring the reliability of cost-related information and reducing the risk of financial misstatements. Financial auditing, as an independent form of external oversight, enhances the credibility of financial statements by examining whether costs are recognized and reported in accordance with accounting principles and legal regulations (Arens, Elder, Beasley, 2014). Internal auditing, in turn, serves both an advisory and an improvement-oriented function, focusing on the evaluation of the effectiveness of processes related to operating costs and the identification of areas requiring enhancement (Moeller, 2016; Marcinkowska, 2021). Although these two mechanisms differ in terms of their scope and objectives, their roles are complementary in small business entities. The literature, both Polish and international, indicates that the combined application of financial auditing and internal auditing contributes to strengthening internal control systems, improving the quality of financial information, and supporting more effective organizational management (Cohen, Sayag, 2010; Lenz, Hahn, 2015).

Despite the growing interest in auditing and control issues in the context of small and medium-sized enterprises (SMEs), there is still a lack of empirical studies in the Polish literature examining the relationship between the quality of accounting in the area of cost reporting and the functioning of internal and external auditing in small business entities. Existing research has primarily focused on large organizations, the public sector, or formal and legal aspects of auditing, leaving a research gap concerning small entities, which constitute the majority of enterprises in the market (Eulerich, Lenz, 2022). The originality of this study lies in combining the perspectives of financial auditing and internal auditing in the analysis of accounting issues related to operating activity costs in small business entities. Previous studies have mainly concentrated on large organizations or the formal aspects of auditing, whereas the relationships between the perception of cost-related problems and the significance of internal auditing in small entities remain relatively underexplored, particularly in the Polish context. Therefore, the objective of this study is to investigate the degree of difficulty that small entities encounter in the proper identification and measurement of operating activity costs, based on the opinions of statutory auditors, and to evaluate the role of internal auditing in eliminating cost-related errors prior to the conduct of a financial audit. This objective stems from the need to deepen scientific knowledge regarding the quality of accounting practices in the area of cost reporting within the small business sector and to determine the extent to which internal auditing and financial auditing can compensate for the limitations of accounting and recording systems in these entities. The rationale for pursuing this objective is the growing importance of cost information in the management of small enterprises, particularly under conditions of cost-based competition and inflationary pressure (Winiarska, 2022). Furthermore, previous studies have highlighted that the effectiveness

of internal control systems in small entities is highly variable and often insufficient, thereby increasing the risk of errors and distortions in financial performance reporting (Khairi, Abdulwahab, 2021).

The implementation of the study makes it possible to answer the question of whether internal auditing plays a significant compensatory role in the area of operating activity costs and whether there is a relationship between the scale of cost-related problems and the perceived effectiveness of auditing. These investigations are important from both scientific and practical perspectives. The scientific contribution of the study lies in providing empirical evidence supporting the existence of the identified gap in the literature concerning financial auditing and internal auditing in small business entities. The practical contribution consists of identifying potential areas for improving accounting and control systems that may assist owners and managers of small enterprises in enhancing cost efficiency and improving the quality of financial reporting.

2. THEORETICAL FOUNDATIONS OF FINANCIAL AUDITING

Financial auditing is defined as a systematic and documented process involving the application of established procedures, consisting of the objective collection and evaluation of audit evidence in order to verify the reliability and accuracy of an entity's financial information (Arens, Elder, Beasley, 2014). The subject of the audit includes business transactions and events recorded in accounting records, which are assessed for compliance with applicable accounting standards and legal regulations (Messier, Glover, Prawitt, 2017). Financial auditing therefore involves the examination of an entity's historical financial data to determine whether the financial statements are free from material misstatements and whether they fairly present the company's financial position and performance (Winiarska, 2017). Audit services, performed by statutory auditors, include financial statement audits, reviews of financial information, and other assurance services. By determining an acceptable level of detection risk, the statutory auditor formulates an audit opinion that serves as the basis for assessing the credibility and reliability of the entity's financial reporting (Hayes, Gortemaker, Wallage, 2014). Financial auditing, as an independent and systematic process, aims to assess whether financial statements have been prepared in accordance with applicable legal regulations, including the Accounting Act and International Financial Reporting Standards adopted under Commission Regulation (EU) 2023/1803, and whether they comply with the principles of faithful representation, transparency, and reliability in financial reporting (Gmytrasiewicz, Karmańska, 2010). Audit procedures include the examination of compliance with accounting standards (e.g., the Polish Accounting Act and Commission Regulation (EU) 2023/1803), the assessment of data reliability, tests of internal controls, and substantive tests performed at the level of account balances and transactions (Sawicki, 2016). Compliance analysis involves verifying whether the entity maintains its accounting records in accordance with applicable regulations and whether the information presented in the financial statements is complete, comparable, and supported by adequate audit evidence (Accounting Act, 1994; Nowak, 2018). Internal control testing, in turn, enables the auditor to assess the effectiveness of the entity's internal control systems, which is essential for determining the risk of material misstatement (Chluska, 2021). Substantive testing, based on analytical procedures and detailed transaction testing, provides evidence regarding the accuracy of financial data and facilitates the identification of potential misstatements or irregularities (Moeller, 2016). The final outcome of the financial audit is the issuance of an

audit opinion and audit report, in which the auditor evaluates whether the financial statements present a true and fair view of the entity's financial position and financial performance.

Financial auditing occupies a special position within the corporate governance system, as it contributes to enhancing the transparency, credibility, and quality of financial information used by an entity's stakeholders (Kaplan, Williams, 2013). Research indicates that the independent audit of financial statements reduces information asymmetry and increases the confidence of the business environment, which is particularly important for financial institutions, investors, and regulatory authorities (Francis, 2011). Financial auditing also performs a preventive function by mitigating the risk of fraud, accounting errors, and earnings management practices (DeFond, Zhang, 2014). As a result, the financial audit process supports market stability and transparency while contributing to the improvement of accounting quality as an organizational information system. By providing independent assurance regarding the reliability of financial reporting, financial auditing strengthens stakeholder trust and promotes more informed economic decision-making.

In conclusion, it is worth emphasizing that financial auditing constitutes a key component of the financial reporting system, providing an independent and reliable assessment of the information presented by business entities. Its fundamental role is to verify the compliance of financial statements with applicable standards and to confirm that they present a true and fair view of the organization's financial position and performance. Through the application of comprehensive audit procedures, ranging from tests of internal controls to detailed substantive testing, financial auditing helps reduce the risk of irregularities and enhances the credibility of reported information. Research indicates that financial auditing improves the quality of financial information, strengthens stakeholder confidence, and contributes to better information governance within organizations. Consequently, financial auditing performs both a verification and a preventive function, reinforcing the accounting system by promoting transparency, reliability, and accountability. Its role is particularly significant in an environment characterized by increasing economic complexity and growing regulatory requirements. The independent assessment provided by statutory auditors forms the foundation of the credibility of financial statements and represents a crucial element in the proper functioning of financial and economic systems. By enhancing trust in financial reporting and supporting informed decision-making, financial auditing contributes to the efficiency, stability, and integrity of modern markets.

3. CONCEPTUAL FOUNDATIONS OF INTERNAL AUDITING

In the literature, internal auditing is defined as an independent and objective assurance and consulting activity designed to add value and improve an organization's operations. These definitions emphasize the multidimensional nature of internal auditing, which combines control, advisory, evaluation, and governance-support functions (Moeller, 2016). Owing to its independence and position within the organizational structure, internal auditing enables the identification and analysis of risks, the assessment of the effectiveness of internal control systems, and the formulation of recommendations aimed at improving organizational performance (Sawicki, 2016). A particularly important aspect of internal auditing is its advisory function, which increasingly contributes to value creation and supports strategic management processes. By providing management with objective insights and recommendations, internal auditors assist organizations in enhancing

operational efficiency, strengthening risk management practices, and achieving their strategic objectives.

Internal auditing operates within an organization as an integral component of the internal control system, ensuring a balance between monitoring compliance and supporting managerial decision-making processes. It involves the systematic and comprehensive assessment of whether employees adhere to established procedures, as well as the evaluation of the reliability of accounting records and the identification of irregularities, including fraud and misconduct (Winiarska, 2017). Employees within the organization must recognize its supervisory and accountability functions, which form a fundamental element of a culture of internal responsibility. In accordance with Polish legal regulations, particularly the Public Finance Act, internal auditing serves as a mechanism supporting the head of an entity in the performance of organizational tasks and in assessing the effectiveness of management control systems. However, the statutory approach is narrower than that adopted in international standards, as it focuses primarily on financial management and the stewardship of public resources (Public Finance Act). In contrast, international frameworks view internal auditing more broadly as a strategic governance tool that contributes to risk management, organizational improvement, and value creation across all areas of activity.

The origins of internal auditing illustrate its evolution from a simple accounting control mechanism into an advanced function supporting organizational management and improvement. The historical roots of auditing can be traced back to ancient Rome, where *auditores* were responsible for the “hearing of accounts,” verifying oral confirmations of financial information in order to prevent fraud and misconduct (Sawyer, Dittenhofer, Scheiner, 2003). Although earlier civilizations, including Mesopotamia, Egypt, and China, employed various forms of control and verification techniques, these practices did not correspond to the modern concept of auditing. The contemporary understanding of auditing re-emerged in nineteenth-century Great Britain and experienced significant development during the industrialization of the United States (Moeller, 2016). Modern internal auditing is the result of a long process of evolution that has transformed it from a purely control-oriented activity into a comprehensive management-support function. Today, internal auditing not only evaluates compliance and internal controls but also contributes to organizational improvement, risk management, and value creation. As a consequence, it has become an essential instrument for enhancing organizational effectiveness and adaptability in an increasingly complex and rapidly changing business environment.

Internal auditing, like financial auditing, is a process that requires the application of specific procedures and techniques, including risk analysis, compliance testing, substantive testing, observations, interviews, and document reviews (Arens, Elder, Beasley, 2014). However, it differs in terms of the broader scope of its impact. Internal auditing encompasses not only the accounting system and financial reporting but also all organizational processes, including operational, strategic, and managerial activities. An internal auditor, whether employed by the organization or engaged on its behalf, evaluates the functioning of the organization as a whole. Through this comprehensive assessment, internal auditing supports organizational development and operational effectiveness by providing recommendations aimed at improving processes, strengthening controls, and enhancing overall performance (Lutgan, 2012). Consequently, internal auditing serves not

only as a monitoring mechanism but also as a strategic tool that contributes to continuous improvement and sustainable organizational growth.

In conclusion, it should be emphasized that internal auditing plays a crucial role in modern organizations, constituting one of the most important components of the internal control system, risk management framework, and corporate governance structure. Its essence lies in the independent and objective evaluation of organizational processes with the aim of improving their effectiveness and creating added value. The contemporary approach to internal auditing, based on the International Standards of the Institute of Internal Auditors, highlights its proactive role, which extends beyond traditional control functions to encompass advisory activities, support for managerial decision-making, and the strengthening of organizational governance. Both historical and contemporary perspectives demonstrate that internal auditing is a dynamic process that continues to evolve in response to changes in the business environment and organizational requirements. Unlike financial auditing, internal auditing has a comprehensive scope and encompasses the entire organization, making it a valuable tool for supporting management at all organizational levels. As a result, it contributes to greater transparency, accountability, and operational effectiveness, regardless of an entity's size or organizational structure. By fostering continuous improvement and enhancing organizational resilience, internal auditing has become an indispensable element of effective and sustainable organizational management.

4. THE RELATIONSHIP BETWEEN FINANCIAL AUDITING AND INTERNAL AUDITING

Determining the relationship between financial auditing and internal auditing requires an analysis of their respective scopes, objectives, and functions within an organization. The literature emphasizes that financial auditing is a formal process of examining financial statements, encompassing not only their verification but also the proposal of adjustments and the issuance of an opinion regarding their reliability and fairness (Krzywda, 2012). Internal auditing, in contrast, is intended to support the organization in achieving its objectives through a systematic and disciplined approach to evaluating and improving governance processes, risk management, and internal controls (Moeller, 2016). This distinction highlights their fundamentally different roles. Financial auditing is primarily focused on the past, assessing historical financial information and determining whether it has been presented fairly and in accordance with applicable standards. Internal auditing, on the other hand, is more strongly oriented toward the future, emphasizing organizational effectiveness, process improvement, and the enhancement of internal control mechanisms (Winiarska, 2017). Consequently, while financial auditing provides assurance regarding the reliability of financial reporting, internal auditing contributes to the continuous improvement of organizational performance and the achievement of strategic objectives.

In the English-language literature, the terms *audit* and *auditing* are often used interchangeably. Traditionally, however, a distinction is made between external auditing (external audit), which corresponds to financial auditing, and internal auditing (internal audit) (Hayes, Gortemaker, Wallage, 2014). Originally, the term *audit* referred exclusively to external auditing, whereas internal auditing developed significantly only during the twentieth century as corporate structures became more complex and the need for systematic risk management increased (Sawyer, Dittenhofer, Scheiner, 2003).

Contemporary perspectives emphasize that internal auditing encompasses the evaluation of both financial and non-financial areas, operates on a continuous basis, and performs a strong advisory function within organizations (Lenz, Hahn, 2015; Eulerich, Georgieva, 2022). By contrast, the statutory auditor primarily examines historical events and financial transactions, issuing an independent opinion intended for external stakeholders such as investors, creditors, and regulatory authorities (Arens et al., 2014). These differences are reflected in the classical typology proposed by Winiarska (2022), which identifies distinctions between financial auditing and internal auditing in terms of their objectives, the status and independence of auditors, the scope of examination, and the time horizon of their activities. While financial auditing is primarily concerned with providing assurance on the reliability of past financial information, internal auditing focuses on improving current processes and supporting the organization's future performance and development.

Internal and external auditing perform distinct roles, yet their functions can complement one another. Internal auditing oversees the organization as a whole, encompassing not only financial areas but also operational, organizational, and strategic activities. Financial auditing, by contrast, focuses on the formal evaluation of the accuracy and fairness of the financial statements prepared for the preceding financial year (Messier, Glover, Prawitt, 2017). In practice, the work of internal auditors results in audit reports containing recommendations aimed at improving organizational processes and controls. External auditors, on the other hand, issue an audit opinion and audit report designed primarily to meet the information needs of external stakeholders. Internal auditors possess extensive operational knowledge of the entity gained through their continuous involvement in organizational activities, whereas statutory auditors acquire their understanding of the entity mainly during the audit engagement itself (Deloitte, 2023). Contemporary research confirms that internal auditing is primarily focused on current and future risks, emphasizing prevention, process improvement, and organizational effectiveness. Financial auditing, in contrast, is principally concerned with assessing the reliability and accuracy of historical accounting records and financial information (Eulerich, 2022). As a result, while the two functions differ in scope, objectives, and time orientation, they jointly contribute to strengthening organizational governance, enhancing accountability, and improving the overall quality of financial and managerial information.

The scientific literature consistently emphasizes the necessity of cooperation between internal and external auditors (Goodwin, 2014; Abbott et al., 2016; Marcinkowska, 2021). Such cooperation can reduce audit risk, enhance the efficiency of the audit process, and improve the quality and reliability of financial information. Effective collaboration depends on the quality of the internal audit function, including the competence and professional expertise of internal auditors, their clearly defined position within the organizational structure, and the transparency and consistency of audit procedures. The joint efforts of internal auditors and external auditors also contribute to reducing audit costs and improving risk management at both the operational and financial reporting levels (Cohen, Sayag, 2010). By sharing relevant information, coordinating activities, and leveraging each other's findings, the two functions can avoid duplication of work and achieve greater audit effectiveness. Consequently, a well-functioning relationship between internal and external auditing strengthens the overall control environment, enhances organizational governance, and supports the credibility of financial reporting.

In conclusion, it is worth emphasizing that the analysis of the relationship between financial auditing and internal auditing demonstrates that they are two distinct yet interdependent control systems. Financial auditing performs an external assurance function by providing an independent verification of financial statements and strengthening stakeholder confidence in the reliability of financial reporting. Internal auditing, in contrast, is a continuous and comprehensive activity focused on process improvement, risk management, and supporting the achievement of organizational objectives. The relationship between these two functions is complementary in nature. Internal auditing provides operational knowledge and ongoing oversight of organizational activities, whereas financial auditing contributes independence and an external perspective. Contemporary literature highlights the importance of cooperation between the two functions, as such collaboration enhances the quality of control systems, improves the credibility of financial reporting, and strengthens organizational resilience to both financial and operational risks. Despite differences in their objectives, methodologies, and target audiences, internal auditing and financial auditing mutually reinforce one another, forming an integrated framework of oversight, governance, and assurance. Together, they contribute to higher-quality managerial and financial information, more effective risk management, and improved organizational performance in an increasingly complex business environment.

5. OPERATING ACTIVITY COSTS AS A KEY AREA OF FINANCIAL AUDITING AND INTERNAL AUDITING IN SMALL BUSINESS ENTITIES

Operating activity costs constitute one of the most important areas of both financial auditing and internal auditing in small business entities, as they directly affect the assessment of financial performance, liquidity, and the overall stability of an organization's operations (Nowak, 2018; Winiarska, 2022). From the perspective of financial auditing, ensuring the reliability, completeness, and compliance of disclosed operating costs with accounting regulations and applicable accounting standards is of fundamental importance (Arens, Elder, Beasley, 2014). Internal auditing, in contrast, focuses on evaluating the efficiency, appropriateness, and economic rationality of incurred costs, providing recommendations that facilitate their optimization and contribute to improved organizational performance (Moeller, 2016). Operating costs also represent an area particularly vulnerable to errors, irregularities, and fraud, making them a focal point of attention for both statutory auditors and internal auditors during audit and control activities (Marcinkowska, 2021). Consequently, the examination of operating costs serves not only to verify the accuracy of financial reporting but also to assess the effectiveness of resource utilization and support sound managerial decision-making. For small business entities, where financial and organizational resources are often limited, effective control and monitoring of operating costs are especially important for maintaining competitiveness and achieving long-term sustainability.

Cost accounting plays a crucial informational role in small business entities, enabling the assessment of the purposefulness and rationality of incurred expenditures, supporting process management, and facilitating decision-making related to planning and controlling business activities (Sobańska, Wnuk, 2020; Biadacz, 2024; Kuraś, 2016). In practice, small enterprises often adopt a minimalist approach to cost accounting, particularly in partnerships and other small organizational forms, where the implementation of sophisticated cost accounting systems is frequently perceived as unnecessary or

impractical. This approach is commonly driven by limited managerial knowledge, staffing constraints, and the relatively simple nature of business operations (Rubik, 2011). Financial auditing focuses on assessing whether costs have been recognized and reported in accordance with accounting regulations and standards, whereas internal auditing evaluates the relationship between incurred costs and the achievement of business objectives, as well as the effectiveness of cost management systems. According to recent studies, small entities often face challenges related to incomplete cost documentation and insufficient operational controls, which increase the risk of improper expense classification and the misstatement of financial results (Deloitte, 2023; Khairi, Abdulwahab, 2021). For this reason, internal auditing aimed at improving cost-control mechanisms becomes particularly important in small organizations characterized by limited financial, human, and organizational resources. By identifying weaknesses in cost management processes and recommending corrective actions, internal auditing can enhance the reliability of accounting information, support more effective resource allocation, and reduce the likelihood of financial reporting errors.

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The examination of operating costs within the framework of internal auditing and financial auditing should, in particular, include the determination of the desired state, the identification of the actual state, the analysis of deviations, and the formulation of corrective recommendations (Krzywda, 2012; Winiarska, 2017). Variance analysis serves as an important cost management tool, enabling the identification of factors that determine the level and structure of costs, including processes that generate unnecessary or excessive expenditures (Łęgowik-Świącik, 2018).

Recent literature also emphasizes that internal auditing should assess the impact of the external environment on operating costs, including factors such as inflation, rising energy and service prices, and regulatory changes affecting small business entities (World Bank,

2023). Through such analyses, internal auditors can provide management with valuable insights into cost drivers and recommend actions aimed at improving cost efficiency and organizational resilience. Financial auditing, in turn, serves as a mechanism for ensuring the reliability and accuracy of cost-related information by examining whether operating costs have been recognized, measured, and disclosed in accordance with accounting principles and applicable regulations (Sobańska, Wnuk, 2020). Consequently, while internal auditing focuses on understanding and improving cost management processes, financial auditing provides assurance regarding the credibility of the financial data used for managerial decision-making and external reporting. Together, these functions contribute to more effective cost control and higher-quality financial information within small business entities.

In conclusion, it should be noted that operating activity costs represent an area of fundamental importance for the proper functioning of small business entities (Kowalska, Rubik, Skibińska, 2020). Financial auditing examines these costs in terms of their accuracy, compliance with applicable regulations, and faithful presentation in financial statements, which is particularly important for maintaining the credibility of the entity and its relationships with external stakeholders. Internal auditing, on the other hand, evaluates the efficiency, appropriateness, and economic justification of incurred costs, supporting managerial decision-making and identifying opportunities for cost reduction and profitability improvement. In small business entities, which often operate under conditions of limited resources, these two processes perform complementary functions by ensuring both regulatory compliance and strategic cost management. The synergy between internal auditing and financial auditing provides a more comprehensive understanding of an entity's cost structure and financial condition, enabling more effective mitigation of financial risks. Through their combined contribution to control, assurance, and organizational improvement, both functions support the sustainability, competitiveness, and long-term success of small business entities.

6. RESEARCH METHODOLOGY

The research methodology applied in this study was designed to provide a reliable investigation of financial auditing and internal auditing in the accounting systems of small business entities, with particular emphasis on operating activity costs as an area of elevated risk. The literature highlights that small enterprises are characterized by limited formalization of accounting processes, simplified control systems, and a shortage of specialized financial personnel, all of which increase the likelihood of errors in the identification, classification, and measurement of costs (Winiarska, 2017; Sobańska, Wnuk, 2020). Given these conditions, and considering the need to examine both practical experiences and professional perceptions, the diagnostic survey method was selected as the most appropriate research approach. The study was conducted using a questionnaire survey directed at practitioners, particularly statutory auditors and accounting professionals with experience in working with small business entities. This methodological approach enabled the collection of expert opinions and assessments concerning the quality of cost accounting practices, the occurrence of cost-related irregularities, and the role of financial auditing and internal auditing in identifying and mitigating such problems. By drawing on the experience of professionals directly involved in accounting and audit processes, the study provides valuable insights into the challenges and control mechanisms associated with operating costs in small enterprises.

The questionnaire survey enabled the collection of structured data concerning respondents' assessments of the difficulties encountered in the accounting of operating activity costs from the perspective of statutory auditors' professional experience, as well as the role of internal auditing in identifying and eliminating irregularities. The study adopted an approach commonly used in social science and accounting research, according to which multi-item Likert scales may be treated as an approximation of interval-level measurement. This assumption allows for the application of the Pearson correlation coefficient to examine linear relationships between variables (Field, 2018). By employing this methodological framework, it was possible to quantify respondents' perceptions and evaluate the strength and direction of relationships between selected aspects of cost accounting quality and the perceived effectiveness of internal auditing. Such an approach facilitates a more rigorous statistical analysis of the interactions between cost-related challenges and audit-related mechanisms within small business entities.

A total of $N = 80$ respondents participated in the study, including 40 statutory auditors (50%) and 40 accounting specialists employed in small business entities (50%). A purposive sampling method was applied, targeting individuals with professional experience in financial auditing, internal auditing, and the accounting practices of small enterprises. The questionnaires were distributed electronically to 120 potential respondents, of whom 80 returned correctly completed questionnaires, resulting in a response rate of 66.7%. This level of participation provided a sufficient basis for conducting the planned statistical analyses and obtaining insights from professionals directly involved in accounting and auditing activities. In addition to the descriptive analysis of the survey results, Pearson's correlation analysis was employed to examine the relationships between selected variables. This statistical technique enabled the assessment of the strength and direction of linear associations between respondents' evaluations of cost-accounting difficulties and their perceptions of the effectiveness of internal auditing in reducing cost-related irregularities.

In conclusion, the combination of the survey method and Pearson's correlation analysis constitutes a coherent and appropriate research approach for examining financial auditing and internal auditing in the accounting systems of small business entities. This methodology enables both the identification of the scale and nature of problems related to operating activity costs and the analysis of relationships between key elements of the control system and the assurance of financial information quality. As such, it provides a solid foundation for further in-depth research, including regression analyses and case studies aimed at evaluating the effectiveness of auditing practices within the small business sector. Moreover, the adopted methodological framework facilitates a better understanding of how internal auditing and financial auditing contribute to improving the reliability of cost accounting information and strengthening control mechanisms in organizations characterized by limited resources and simplified accounting systems.

7. RESULTS

The research procedure was divided into two stages. First, a frequency analysis of respondents' answers to two survey questions was conducted. The first question was addressed to statutory auditors, whereas the second was directed to accounting specialists employed in small business entities. This stage of the analysis made it possible to identify the distribution of responses and assess respondents' perceptions regarding issues related to operating activity costs and the role of auditing processes. Subsequently,

in order to examine the relationships between the variables under investigation, Pearson's correlation analysis was performed. This method was used to assess the strength and direction of the associations between variables measured on an ordinal scale, treated as an approximation of interval-level data for analytical purposes. The correlation analysis enabled the identification of statistically meaningful relationships between the perceived difficulties in cost accounting and the assessed effectiveness of internal auditing in preventing and eliminating cost-related irregularities.

As shown by the data presented in Figure 1, the vast majority of respondents perceive significant difficulties faced by small business entities in the proper identification and measurement of operating activity costs prior to the conduct of a financial audit. More than half of the respondents (40% "rather have difficulties" and 24% "definitely have difficulties") confirmed the existence of problems in this area. This finding is consistent with the literature, which indicates that small enterprises often operate with limited human and financial resources, making it difficult to maintain effective cost accounting systems (Khairi, Abdulwahab, 2021; Sobańska, Wnuk, 2020). Furthermore, small entities frequently experience situations in which accounting responsibilities are concentrated in the hands of a single employee, formal control procedures are underdeveloped, and simplified accounting methods are used. These conditions increase the risk of errors in the identification, classification, and measurement of operating costs (Winiarska, 2022). The results suggest that financial auditing performs a particularly important corrective and verification function in small business entities by identifying and rectifying irregularities that may have arisen during the recording and accounting of operating costs. Consequently, the audit process contributes not only to the reliability of financial reporting but also to improving the overall quality of accounting information used for managerial and external reporting purposes.

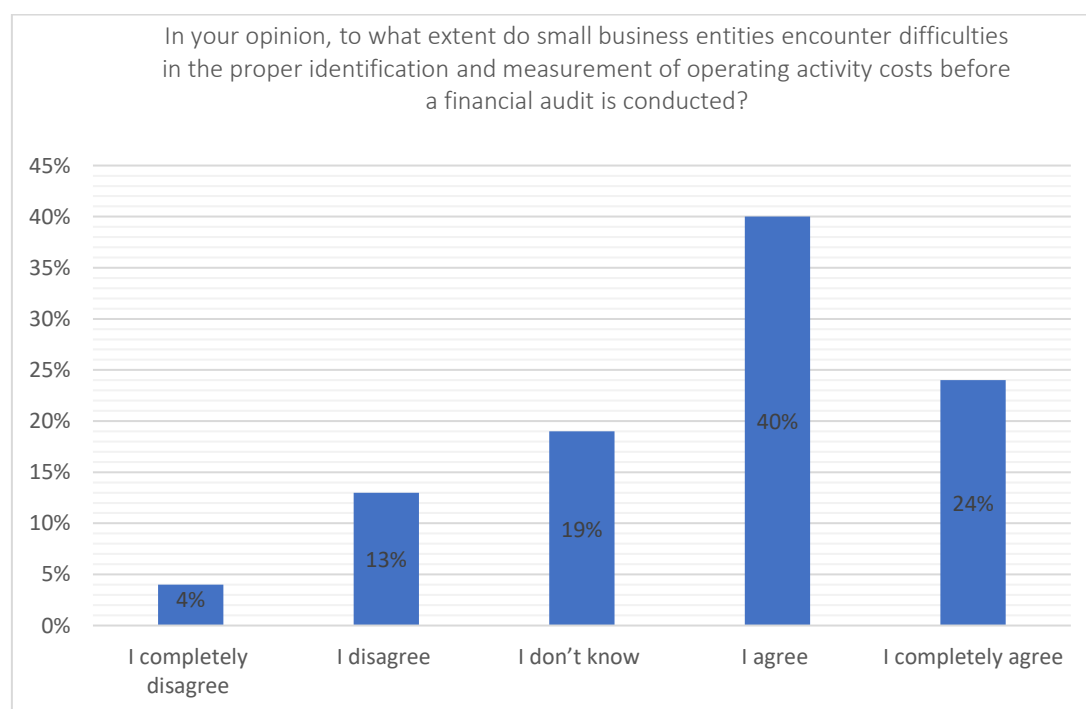


Fig. 1. Statutory Auditors' Opinions on the Difficulties Faced by Small Business Entities in Identifying and Measuring Operating Activity Costs.

Source: Author's own elaboration.

Considering the data presented in Figure 1, it can be observed that a relatively small proportion of respondents indicated that small business entities do not experience difficulties in the proper recognition and measurement of costs (4% “definitely not” and 13% “rather not”). This may suggest that some enterprises possess more developed accounting systems, make use of professional accounting support, or employ personnel with appropriate financial and accounting competencies. It should be emphasized, however, that these respondents constitute a minority, which supports the general conclusion that the quality of cost-related information in small business entities is often lower due to their limited scale of operations and the lack of specialized analytical tools (Marcinkowska, 2021). The 19% of respondents who selected “difficult to say” may reflect the fact that certain aspects of cost identification and measurement are not immediately apparent during the preliminary assessment conducted by statutory auditors. In many cases, such issues become evident only during the course of the audit itself. This finding is consistent with the nature of the auditor’s work, which relies on risk assessment procedures and transaction sampling rather than the examination of every individual accounting record (Arens, Elder, Beasley, 2014). Overall, the results indicate that challenges related to the identification and measurement of operating activity costs are a widespread phenomenon among small business entities. This underscores the importance of both financial auditing and internal control mechanisms in ensuring the reliability of accounting information and reducing the risk of cost-related misstatements in financial reporting.

In the case of the second question, which was addressed to accounting specialists employed in small business entities, the results indicate that the majority of respondents perceive internal auditing as playing an important role in eliminating errors related to the measurement and classification of operating activity costs. As many as 60% of respondents (34% “helps to a large extent” and 26% “helps to a very large extent”) assessed the impact of internal auditing as significant. This finding is consistent with the literature, which emphasizes that even in small entities, internal auditing, whether implemented in a comprehensive or simplified form, enhances the quality of accounting and control processes, identifies classification errors, and reduces the risk of financial statement misstatements (Moeller, 2016; Marcinkowska, 2021). Internal auditing provides a systematic evaluation of cost-recording processes and introduces corrective actions that are particularly valuable in organizations characterized by limited resources and a low degree of procedural formalization (Winiarska, 2017).

The respondents’ answers confirm that internal auditing strengthens the internal control system, which is considered one of the key factors contributing to the improvement of financial information quality in small organizations (Figure 2). By supporting the detection and correction of cost-related errors before they affect financial reporting, internal auditing contributes to greater reliability, transparency, and effectiveness of accounting systems in small business entities.

As indicated by the data presented in Figure 2, the proportion of neutral responses (20% “helps to a moderate extent”) suggests that in some small business entities the effectiveness of internal auditing may be limited due to the incomplete implementation of its functions or the insufficient frequency of audit activities. This finding is consistent with previous studies showing that, in small enterprises, internal auditing often lacks a formal organizational structure and is frequently performed only on an occasional basis or by individuals combining multiple responsibilities (Goodwin, 2014; Lenz, Hahn, 2015).

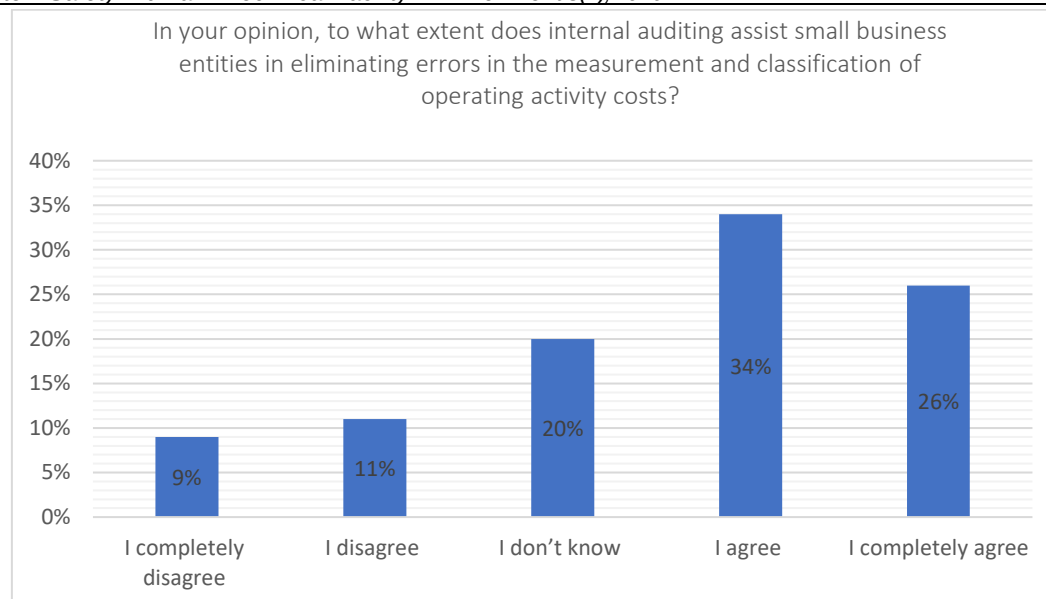


Fig. 2. The Role of Internal Auditing in the Elimination of Errors Related to Operating Activity Costs

Source: Author's own elaboration.

Consequently, the support provided by internal auditing may be noticeable, but not sufficiently intensive to fully eliminate irregularities in cost accounting practices. The lowest response categories - 9% ("does not help at all") and 11% ("helps to a small extent"), suggest that in some small entities internal auditing is either absent or operates in a very limited form. Small enterprises often do not maintain formal internal audit departments, and the monitoring of accounting processes is frequently carried out only occasionally or directly by the owner-manager, which reduces the effectiveness of control activities (Khairi, Abdulwahab, 2021). The literature also emphasizes that a lack of awareness regarding the importance of internal auditing, together with insufficient employee knowledge, may negatively influence perceptions of its value and usefulness (Cohen, Sayag, 2010). These findings indicate that a proportion of small business entities still do not fully exploit the potential of internal auditing to improve the quality of cost accounting records and strengthen internal control mechanisms. As a result, opportunities to prevent cost-related errors and enhance the reliability of financial information may remain underutilized in many small organizations.

Table 1.
Correlation Between the Variables Under Investigation

Pearson Correlation Matrix of the Variables Under Investigation	In your opinion, to what extent do small business entities encounter difficulties in the proper identification and measurement of operating activity costs before a financial audit is conducted?
In your opinion, to what extent does internal auditing assist small business entities in eliminating errors in the measurement and classification of operating activity costs?	0,75

Source: Author's own elaboration.

From a methodological perspective, the obtained value of $r = 0.75$ ($p < 0.001$; $N = 80$) indicates a strong positive linear relationship between the variables under investigation. This suggests that respondents perceive difficulties related to the identification and measurement of operating activity costs and the role of internal auditing as elements of a single, interconnected financial information management system. At the same time, it should be emphasized that correlation does not imply causation. Therefore, this result does not demonstrate that internal auditing automatically eliminates cost-related errors; rather, it indicates a strong co-occurrence in respondents' assessments of these phenomena. Nevertheless, such a high correlation coefficient constitutes important empirical evidence warranting further investigation, for example through the application of regression models aimed at exploring the nature and direction of these relationships in greater detail. Moreover, the findings strengthen the argument for the development of internal auditing within small business entities as a tool for improving the quality of accounting information, particularly in the area of cost accounting. They also suggest that organizations facing greater challenges in the identification and measurement of costs tend to perceive internal auditing as more valuable in mitigating accounting irregularities and enhancing the reliability of financial information.

8. DISCUSSION

The results of the study suggest that the majority of small business entities experience difficulties in the proper identification and measurement of operating activity costs, as confirmed by 64% of respondents. These challenges stem from resource constraints, insufficient control procedures, simplified accounting systems, and a lack of expertise in cost accounting. At the same time, a relatively small proportion of respondents reported no significant difficulties, which may indicate variations in the quality of financial and accounting systems across the small business sector. These findings confirm the crucial role of financial auditing as a mechanism for detecting and correcting accounting errors, as well as the importance of internal auditing as a function that enhances cost management systems and strengthens organizational control processes. The results suggest that both forms of auditing play an essential role in improving the reliability of financial information and supporting sound managerial decision-making in small enterprises. By identifying weaknesses in cost accounting practices and promoting corrective actions, financial and internal auditing contribute to the overall quality and effectiveness of accounting systems within small business entities.

The research findings clearly indicate that internal auditing plays an important role in eliminating errors related to the measurement and classification of operating activity costs in small business entities, as confirmed by 60% of respondents. Internal auditing strengthens internal control systems, enhances the transparency of financial processes, and identifies areas requiring corrective action. By systematically evaluating accounting procedures and cost-recording practices, it contributes to improving the reliability and accuracy of financial information. Nevertheless, the proportion of neutral and negative responses suggests that the effectiveness of internal auditing depends largely on the degree of formalization, organizational support, and the competencies of individuals responsible for audit activities within a given entity. In many small enterprises, internal auditing may be limited by resource constraints, the absence of dedicated audit personnel, or insufficiently developed control procedures. These findings confirm the variability in the quality of internal control systems across the small business sector and highlight the

importance of further strengthening the internal audit function. Enhancing the scope, frequency, and professionalism of internal audit activities may contribute significantly to reducing cost-related errors, improving financial reporting quality, and supporting more effective management of organizational resources.

From a methodological perspective, the value of $r = 0.75$ indicates not only a strong relationship between the variables but also a high degree of perceptual consistency in respondents' answers. This suggests that the participants perceive difficulties related to the identification and measurement of operating activity costs and the role of internal auditing as components of a single, interconnected financial information management system. At the same time, it should be emphasized that correlation does not imply causation. Therefore, neither the theoretical assumptions nor the results of the present study demonstrate that internal auditing automatically eliminates cost-related errors. Rather, the findings indicate a strong co-occurrence in respondents' assessments of these phenomena. In other words, respondents who perceive greater difficulties in cost identification and measurement also tend to assign greater importance to the role of internal auditing in addressing such problems. Nevertheless, such a high correlation coefficient constitutes important empirical evidence warranting further investigation, for example through the application of regression models aimed at examining the nature and direction of these relationships in greater depth. The findings also strengthen the argument for the development of internal auditing in small business entities as a mechanism for enhancing the quality of accounting information, particularly in the area of cost accounting. By supporting internal controls and improving the reliability of cost-related information, internal auditing may contribute significantly to the effectiveness of financial management and decision-making processes within small enterprises.

9. CONCLUSION

The theoretical considerations undertaken in this study made it possible to organize the key concepts and clearly distinguish the roles, objectives, and scopes of financial auditing and internal auditing within the accounting systems of small business entities, with particular emphasis on operating activity costs. The literature consistently indicates that operating costs constitute an area of elevated risk in terms of errors and irregularities, especially in entities characterized by limited organizational resources, simplified accounting systems, and a low degree of formalization of control procedures (Winiarska, 2017; Sobańska, Wnuk, 2020). In this context, financial auditing serves as an external assurance mechanism aimed at verifying the reliability of cost-related information and ensuring its compliance with accounting regulations and standards. Internal auditing, in contrast, is focused on evaluating the efficiency, appropriateness, and economic rationality of incurred costs, while also supporting the improvement of internal processes and control mechanisms (Moeller, 2016; Marcinkowska, 2021). The theoretical analysis therefore demonstrated the complementary nature of these two audit functions and highlighted their particular importance for maintaining the quality of financial information in small business entities. While financial auditing enhances the credibility and transparency of financial reporting from an external perspective, internal auditing contributes to continuous organizational improvement and more effective cost management. Together, these functions form an integrated framework that supports the reliability of accounting information, strengthens internal controls, and improves the overall effectiveness of financial management in small enterprises.

The empirical part of the study confirmed the conclusions previously formulated in the literature while also extending them in a meaningful way. The survey results indicated that the majority of respondents perceive significant difficulties faced by small business entities in the proper identification and measurement of operating activity costs prior to the conduct of a financial audit. This finding confirms the structural weaknesses of cost accounting systems within this segment of organizations. At the same time, respondents assigned a high level of importance to the role of internal auditing in eliminating cost-related errors, and Pearson's correlation analysis revealed a strong positive relationship ($r = 0.75$) between the perceived scale of cost-accounting problems and the importance attributed to internal auditing. This finding represents a significant contribution to the advancement of knowledge because it provides empirical evidence of the relationship between the quality of cost accounting and the functioning of internal auditing in small business entities, an area that has thus far received relatively limited research attention, particularly in the Polish literature (Cohen, Sayag, 2010; Lenz, Hahn, 2015; Eulerich, Lenz, 2022). The scientific contribution of the present study lies primarily in combining the perspectives of financial auditing and internal auditing in the analysis of operating activity costs in small business entities, as well as in providing quantitative evidence of the relationship between these areas. The study enriches existing theoretical considerations with empirical data obtained from practitioners, demonstrating that internal auditing is perceived as a practical mechanism for compensating for deficiencies in cost accounting systems rather than merely as a formal organizational function. The findings obtained provide a valuable foundation for future research, particularly studies focused on causal relationships, comparative analyses, and in-depth case studies within the small and medium-sized enterprise (SME) sector. Such investigations may contribute to a deeper understanding of the mechanisms through which internal auditing influences the quality of accounting information and supports the effectiveness of financial management in smaller organizations.

The study also has important practical implications. First, the findings indicate the need to strengthen the internal audit function in small business entities, even in a simplified form, as a mechanism for improving the quality of the recording, measurement, and classification of operating activity costs. Second, the results confirm the importance of cooperation between internal auditing and financial auditing, which may contribute to reducing the number of cost-related adjustments identified during the financial statement audit process and to improving the quality of managerial information. Third, the study provides arguments for owners and managers of small business entities to invest in accounting and control competencies, as operating costs, being a key determinant of financial performance, require continuous monitoring and evaluation of their efficiency and effectiveness. In this respect, the findings possess both theoretical and practical value. They contribute to the advancement of knowledge while also offering actionable insights for improving accounting practices, financial auditing, and internal auditing in small business entities. By highlighting the importance of effective cost control mechanisms and audit functions, the study supports the development of both accounting theory and professional practice within the small business sector.

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