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ADVOCATING THE INTERNAL AUDIT PROFESSION

by

Marianze Roux

University of Pretoria
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About the Author

Marianze Roux is an honours student in Internal Auditing at the University of Pretoria in South Africa. She completed her degree in Accounting in 2007, also at the University of Pretoria. She can speak three languages (Afrikaans, English and French) and lives with her parents, younger sister and cocker spaniel, Fez in Pretoria.
Executive Summary

This study examines the importance of advocating the internal audit profession. It also describes the efforts of the Institute of Internal Auditors, Governments internal audit functions, and individual internal auditors in advocating the profession. Reasons why internal audit may not be understood by top managers and individuals are examined. It then offers a few suggestions on further possible advocating methods.

Furthermore, this study investigates the definition of ‘value adding’ and how it can be achieved in organisations as well as communicated to management and shareholders. It examines those services which are already identified as services which add value, as well as other services which may be considered to add value, as well as the importance of communication in the value adding process.

Finally, the report examines various studies performed and interviews performed with knowledgeable individual from the profession to determine the future of internal auditing.
INTRODUCTION

What is an internal auditor? Most people in the business environment know exactly what internal auditors are. *Internal auditors are a group of people that generally hang around in the office, constantly interrupting everybody’s work to ask a lot of irritating questions. They force staff to fill out endless questionnaires and spend a considerable amount of time in the CEO’s office.*

What is the purpose of an internal auditor? *Well, actually, no one knows. They talk al lot about adding value but no one really knows what that means, nor if they ever really achieve it.* This is how most people appear to feel about internal auditors. Although internal auditors perform a variety of functions within organizations, the results of their work are usually invisible to mid-level employees. It is no easy task explaining to a layman what internal auditors do and how they add value. This is why internal auditors cannot just talk about creating value. It has to be visible as a direct consequence of their work. The end result of the audit engagement has to mean something tangible to the organization and its entire staff.

How business is done today will probably change completely in the next couple of years. This means that the approach of internal auditors should also change. Risk management is glaringly obvious as one of the main concerns of industry leaders. Internal auditors have to stay on top of these changes to make sure that they continue to add value to their organisations and clients. Internal auditors’ training and education will have to be continually improved to enable them to identify new business risks and to design new controls to address them. How internal audit techniques will be performed in the future will depend largely on further advances in technology.

The question remains, how does an individual advocate the profession and communicate its importance and value to various stakeholders, to ensure that internal auditing thrives into the future? How can internal auditors communicate the fact that they can add value to an organization, and then communicate to the organization the value which they have added? These are important questions which will need to be answered before internal audit can assume its rightful place among the better-known professions.
ADVOCATING THE INTERNAL AUDIT PROFESSION

The Institute of Internal Auditors (IIA) defines advocacy as “instilling pride in the internal audit profession, encouraging change and building relationships with organizations and stakeholders that affect the profession globally.” (Institute of Internal Auditors 2007). The IIA, as the governing body of the profession, is certainly playing its part in communicating the value and importance of internal auditing and the work internal auditors do.

As part of its efforts the IIA has created the International Mastering Advocacy Program (IMAP) Award, which is designed to recognize the extraordinary achievements of institutes around the world who speak out on behalf of the profession, influence key stakeholders, and, through effective media relations and awareness activities, promote the value that internal auditing adds to organizations. The IIA has also proclaimed the month of May “International Internal Audit Awareness Month” (IIA 2008).

The Internal Auditing Education Partnership (IAEP) program was developed to facilitate internal audit education at higher learning institutions including colleges and universities. The IIA only accepts schools into their program that show potential to become leaders in internal audit education. IAEP schools have to comply with the IIA’s criteria and work very closely with the IIA to develop suitable curricula for their internal audit program (IIA 2008). Because IAEP schools are so closely monitored, and due to the success of the IAEP program, organisations employing these graduates should be able to trust their internal audit skills as a quality product.

The Institute of Internal Auditors Research Foundation (IIARF) was created to provide and expand research and education programmes so as to benefit internal auditors, the profession, employer organizations and the public. The mission of the IIARF is to increase the understanding and knowledge of internal auditing by providing research and educational products to further the profession on a global scale. The IIARF does its part to promote the growth of the profession by providing grants and scholarships, research publications and forums (IIA 2008).
The expected outcome of this advocacy process is that the business environment will come to understand and recognise the profession and to adopt the IIA’s Standards for the Professional Practise of Internal Auditing (hereafter referred to as the Standards). The IIA wants to be viewed as the authority in setting the standard for internal audit guidance globally. But the IIA cannot take sole responsibility for advocating the profession. Internal auditors as individuals must also actively promote the profession. However, can one person really make a difference? Can an individual advocate the profession?

The importance of internal auditors is often not completely understood by the general public, and more specifically their clients, the line and senior management. Various studies (Cooper, Leung and Mathews 1996; Meyers and Gramling 1997) have found that internal auditors are not perceived by line managers as being important to the organization, and internal auditors’ recommendations are rarely accepted and implemented. The problem could be that some people do not view internal auditing as a profession (Van Peursem 2004).

According to Macdonald (1995) professions are occupations based on advanced or complex knowledge. The IIA should continue to make absolutely sure that this is always true. Internal auditors should be highly trained individuals and should provide highly specialised services to their clients. Only then can internal auditing as a profession, and internal auditors individually, be acknowledged and respected. It is however true that you first have to be trusted as a person, before you can be respected as a professional. Internal auditors should therefore always be trustworthy.

Burns, Greenspan and Hartwell (1994), evaluated the characteristics of professional status and how, if such status is endangered, professionalism could weaken. As part of this research they presented the intimidation model. This model examines the power of intimidation, exercised through the perceived value and intricacy of a discipline, to determine whether or not a profession is likely to enjoy the real influence needed to fulfil its public as well as private roles. The idea of cruciality explores the situation where management will be more likely to accept a recommendation (or warning) if the internal audit team exhibits a strong sense of authority.
A strong internal audit activity should be able to influence management if the internal auditors feel that certain practises and procedures aren’t effective or are not being implemented correctly. Van Peursem, (2004) suggests that the authority to influence may be acquired in a number of ways:

- Through the existence of an internal audit charter or a strong audit committee.
- From a strong professional association.
- Through other policies that give the internal auditor direct and influential access to the highest level of management.

The IIA views building relationships with stakeholders as the most important way to advocate the profession. Stakeholders include customers, suppliers, management and shareholders, as well as the general staff of an organization. None of these stakeholders can be neglected in the advocacy process.

The agency theory (Adams 1994) suggests that just the fact that there are internal auditors in an organization, with the power to detect material mistakes and fraud, can make people think twice before committing fraud. The agency theory only really takes effect if people know that internal audit can actually detect fraud and material mismanagement of assets.

Because of this responsibility to detect fraud and material mismanagement, the internal audit function has gained the reputation of being policemen. Therefore, to be effective advocates of internal audit, the administrative and production staff of an organization also has to be educated to know that internal auditors are not policemen, but partners of management. The best way to do this is to view internal auditing as a product that needs to be marketed. A good way to raise public awareness is to use the popular media to promote and explain the importance of the work of internal auditors. In addition, when an established organization is about to implement their own internal audit activity, a briefing seminar could be held to explain to the employees the nature and purpose of the activities the internal auditors will be performing.
Although the IIA has come a long way in professionalizing internal auditing, some obstacles still remain before full professional status can be achieved. This is according to O’Reagan (2001), who identified two main obstacles as an ill-defined internal auditing symbolism, and the short term tenure for internal auditors. By symbolism O’Reagan (2001) is referring to some form of motto or image that represents the internal auditor as a professional. For a visually orientated person, having a symbol that represents the profession could go a long way in creating a sense of pride in being part of that profession.

Governments and various institutes can also do their part to advocate the profession. In South Africa, the National Treasury requires all organizations in the public sector to implement internal audit practises, and that these practises must comply with the IIA’s Standards (Public Finance Management Act of 1999). The Johannesburg Stock Exchange requires listed organizations to align themselves with the King Report on Corporate Governance (King Committee on Corporate Governance for South Africa 2002), which advises each organization to have an internal audit activity (King, 2001). The Auditor General, as well as the South African Institute of Chartered Accountants (SAICA), also endorse and implement the Standards of the IIA.

Internal audit should be advocated, not only to stakeholders, but also to prospective students, as a satisfying and credible career. This could even start at school level. A representative from the IIA could attend careers days at high schools to advocate the profession there. If people are educated from a younger age, in a few years’ time, everyone will know and respect internal auditing as a well-established profession.

Perhaps the best way to improve the image of internal auditing is to prevent accountants and external auditors from performing the same services as internal auditors. Comparing internal audit with external audit as professions, major differences can be identified that could explain why the external audit profession is better known and probably better respected. For example, in South Africa, trainee accountants may not call themselves Charted Accountants or Auditors before they have completed the relevant degree at an accredited university, completed a three year training contract and passed two board exams (SAICA 2008).
It is the opposite with trainee internal auditors and people with no formal training or education who may however call themselves internal auditors. Although the rules governing the profession are just as strict, this casualness in naming themselves probably contributes the most damage to the profession as a respected career. The IIA should distance itself from internal audit activities that do not live up to its definition of the profession and that bring its good name in disrepute.

Another precondition for effective advocacy is quality. Internal audit should be known as a quality product. Therefore, within the internal audit function internal quality assessments should be performed annually and external quality reviews should be performed at least every 5 years. In this way it would be possible to ensure that the internal audit activity conforms to the latest rules and standards of the IIA, which will in turn provide stakeholders with the assurance that the work of internal auditors can be trusted and respected.

In summary, if internal auditing wants to be respected as a profession, internal auditors have to act and be seen to be acting professionally at all times. At its most simplistic, just by showing up at work on time everyday, dressing appropriately, and by being respectful and courteous with everyone they interact with, individual internal auditors would already be enhancing the perceived status of the profession.

It is clear that, in order to perform audit engagements effectively and to add value to organizations, internal auditors will have to be professional and build relationships with key stakeholders. Internal auditors also have to commit themselves to becoming skilled and knowledgeable professionals. Furthermore, internal auditors need critical thinking, analysis and decision-making skills, as discussed in the Common Body of Knowledge study (CBOK, 2006). Only then can the process of adding value truly begin. The next section discusses the term ‘adding value’, and how can it be accomplished.
ADDING VALUE

Although this is not a formal definition, Simmons (2000) suggests that ‘adding value’ for internal auditors is “supporting the execution of strategy and those that lead its implementation.” To be able to do this, internal auditors need to have an in-depth understanding of the organization, the nature of the industry and how the organisation’s and the industry’s functions and operations are inter-linked. Without this knowledge, internal auditors could misinterpret the goals of the stakeholders, which in turn can impact negatively on the perceived value and success of the internal audit activity as a whole (Abdolmohammadi, Burnaby and Hass, 2006).

For some people, adding value can describe audit work that helps management improve business operations, instead of just verifying compliance (Roth 2003). For others, it can mean verifying compliance instead of concentrating too much on business operations. Obviously the definition will vary from one department to the next, and even from one person to the next. How an internal auditor defines adding value will sadly mean very little though, if it differs from the way the client interprets it.

The best way to determine how the client views internal audit’s ability to add value is quite simply to ask! Getting input from stakeholders is an important part of the process of adding value.

Internal auditors should not merely rely on top management to define the process of adding value. This is because internal auditing as a profession has grown so much in the last decade that stakeholders’ expectations are likely to be far lower than the internal audit function’s potential to deliver. Internal auditors therefore need to raise stakeholders’ expectation by showing them how much value an internal audit activity can add (Roth 2003).

Prior to the Sarbanes-Oxley Act (2002), internal audit services comprised mainly of the detection of internal control violations, and not the prevention thereof. Where internal auditors used to stand separate from management and acted as watchdogs, today they are partnering with management and providing risk management advice and consultancy services. This change is
mostly viewed as positive, but there are possible negative side-effects to value adding activities which need to be addressed.

Internal audit is being pressured to provide value-added activities, but this type of activity undermines the auditor’s objectivity and independence (Cenker and Nagy 2004). Internal auditors assume the position which best serves their employer and will not often be seen to contradict management. This basically means that although internal auditors should be independent, according to the IIA’s Standards (IIA 2004), they are still employed by the organization to which they report, and could easily be asked to leave if they criticise managements’ corporate governance.

Therefore internal auditors are not likely to give their opinion as readily as they should, if it is a negative one. However, if the organization is being poorly managed and the internal auditors identify this but do not report it, any subsequent business failure could damage the image of the profession as a whole. The addition of consulting services to internal auditing services has expanded the spectrum of duties internal auditors perform and thus, in the eyes of management, they are adding value to the organization (McCall 2002). The threat of these expanded duties is that they may jeopardize the board's trust on the monitoring of management activities and could damage the credibility of internal auditors.

McCall, (2002) however advises that by taking a few steps this risk can be minimised and can ensure that the performance of consulting activities does not harm the image of the internal audit profession. The recognition of consultation work as a form of auditing, and defining the limits of consulting by prioritising between assurance activities and consulting services, is crucial for internal audit to remain independent and objective. This process should be documented in the internal audit charter.

1. How can internal auditors create value?

To be able to add value, the internal audit activity must be able to anticipate and meet the needs of the audit committee, top management and the external auditors. According to Berk (2006), internal auditors today need more complex and advanced skills than before. Auditors who review
the efficiency and effectiveness of business processes can help organizations to improve cycle
times, productivity, quality, employee turnover, customer satisfaction and financial results. This
can be done through consultation activities which, according to Abdolmohammadi et al (2006)
include internal control training, advising management on control issues before implementing
new systems and drafting new policies for internal control.

Internal auditors should focus more on finding solutions to problems than on merely finding
fault. They should assist management to make the organization run more smoothly and to deliver
better products or services to customers (Cox 2007). Key focus areas should be evaluating and
improving the effectiveness of risk management, internal control and corporate governance, as
described in the definition of internal auditing (IIA 2004).

Internal auditors are also invaluable in helping organizations comply with the numerous laws and
regulations that may affect them. For example, the Standards (IIA 2004), as well as the
Committee of Sponsoring Organizations (COSO 2004) framework, require the organization to
address their management of risk issues. Internal auditors can add value by supporting
management in meeting these responsibilities.

Quality of output is also a very important aspect of adding value. Frequent quality assessments
should be undertaken to ensure consistent quality within the audit function and throughout the
organization (Cox 2007). As previously mentioned, external quality reviews should be
performed at least every 5 years. Having a quality assurance and improvement program in place
can help build stakeholder confidence by highlighting the internal auditor’s professionalism.

Those who choose internal auditing as a career have to acknowledge the IIA as the only authority
in monitoring adherence to the IIA’s Standards and Code of Ethics. The IIA is empowered to
consider removing professional status if performance does not meet the established requirements
(Cox 2007). This action would communicate to organizations the world over that internal
auditors are governed by a strict set of rules, and that those who are allowed to practise as
professionally registered internal auditors, follow those rules.
2. How can internal auditors communicate the fact that they are adding value?

Communicating the value of the internal audit function ties in closely with advocating the profession. Firstly, internal auditors need to tell organizations how they are going to add value to their client’s business operation. Once they have created that value, they have to again explain the value they have created and demonstrate how it benefits the organization as a whole. This is no easy task, to be selling their work all the time. But it is something that has to be done if internal audit wants to be recognised and respected.

According to Practise advisory 2410-1 of the Standards (IIA 2004), internal auditors should communicate engagement results to management and to the board. This communication should contain at least the purpose, scope and result of the audit engagement, be it an assurance audit or a consultation service. Purpose statements should accompany the report so that the reader knows exactly what the audit engagement was supposed to achieve.

Communication doesn’t always need to be this formal, though. If the observation or recommendation isn’t particularly significant, it can be communicated verbally. Observations and recommendations are built on two important attributes: what exists and what should exist. If these attributes are significantly different, it should be communicated to management so that they can improve their processes. This type of positive criticism can really add value to an organisation.

Internal auditors should not underestimate the power of “the grapevine” in trying to get their message across. Every organisation has a grapevine (informal information exchange network). It is important because it helps employees get the latest information about what is going on in the organisation. While it is crucial for management to be aware of and understand the value which internal auditors bring to the organisation, the regular staff should also feel that internal audit is not just a thorn in their side, but is a crucial part of the success of the organisation.

Visual media could also be used to communicate the value which internal audit has created. For a visually orientated person, a picture is worth a thousand words. A chart, diagram or model can
sometimes convey a message better than a long and technical written report can. Internal auditors also have to take care when using jargon and technical terms in explaining the procedures they have performed to add value to the organisation. Inappropriate register in a report can cause the intended recipient of the message to lose interest altogether. Keep it brief and interesting and everyone will want to know what internal auditors are doing in the organisation.

According to Leonard and Hilgert (2007), communication hasn’t really taken place though, unless there is feedback. This is especially important to remember for internal auditors who are aiming to add value in organisations. The value that was added should be recognised and agreed upon by both the internal auditors and management, otherwise no value has really been added. A good way to achieve this is to ask management to put in writing the value which they perceive to have been added to the organisation by the internal audit activity. This way there will not be a doubt in the mind of either party as to what the internal audit activity means to the organisation.

Due to the external stakeholders’ demand for increased corporate governance, the management of any organization may demand a more formal explanation of value added activities from various business functions (Zoellick and Frank, 2005). Internal auditors cannot just add value; it must also be communicated to management and the audit committee. Even more importantly, the value that has been added has to be visible to all stakeholders.

THE FUTURE OF INTERNAL AUDITING

Various studies (KPMG 2000; Roth 2002; CBOK 2006) have been performed to determine the future of internal auditing. Methods used for determining this range from questionnaires to personal interviews with Chief Audit Executives (CAE), managers, directors and even academics. Although people’s opinions differ, it is important for internal auditors to agree on the path that the profession needs to take to ensure its growth and to enhance its stature. A few opinions on the subject will now be discussed.

A report issued by KPMG (2000) addresses especially how risk management will become increasingly important in the future. The report states that new ways of assessing and managing
business risk are causing CAEs and their clients to revisit the purpose, scope and operations of the internal audit activity. Driven by developments and change in markets, industries and technology, a new internal audit model is now emerging. This model should attempt to close the expectation gap between what business leaders want and what internal auditing can provide.

KPMG interviewed Glen Summers, head of Louisiana State University’s Centre for Internal Auditing, about his views on the future of internal auditing (KPMG, 2000). According to Summers, future audit emphasis will focus more on operations and strategies than it has in the past. Financial analysis remains important, but internal auditors need to assist management with future decision making. Regarding the skills that will be essential to future internal auditors, Summers feel that internal auditors will have to focus on what’s happening outside their organizations. Internal auditors will also need multidisciplinary skills to be able to perform their duties.

A study performed by James Roth (2002) collected information about best practises in value added internal auditing. Questionnaires were sent to 4500 North American CAE’s and managers regarding which processes they consider to be adding value and which will become more important in the future. Among the 10 most frequently named practices that internal auditors believe will become more important in the future were control, self-assessment, consulting, risk management and e-commerce or cyber security.

Information technology (IT) and its importance in the internal auditing field is another aspect of the future of internal auditing which should be addressed. The internal audit activity must embrace and understand information technology and it should be used as a tool for performing audits engagements. Internal auditors are increasingly expected to perform IT control assessments and evaluate the organizations’ IT controls for effectiveness (Le Grand, 2005). Some IT systems are so complex, that this is indeed a challenging task, but utilising information technology can also help the internal audit activity to function more effectively.

The 2006 global common body of knowledge (CBOK) study is part of an ongoing research document that aims to broaden the understanding of how internal auditors around the globe
perform their duties. One of the questions asked was how internal auditors expected their work to change during the next couple of years. Respondents answered that they expected to be more involved in corporate governance, fraud prevention, IT management assessment and risk management (CBOK 2006).

Neil Baker (2007) interviewed various CAEs and directors about the types of services they expect to be performing in the next couple of years. The general consensus seems to be that internal auditors expect to be performing more speciality audits such as IT audit as well as consulting and advising on mergers and acquisitions. Less emphasis will be placed on financial audits and assurance about controls. Internal auditors will need more specialised skills to perform these tasks.

Internal auditors have an obligation to try and map a future for the profession. CBOK is an excellent indication of whether the profession is on the right track and what areas of the profession need additional work. As to what can be done today to ensure that the profession continues to thrive into the future, the answer lies in advocacy. People need to be told what internal auditors expect to do in the future. The profession then needs to live up to its promises to ensure internal auditing will be recognised and respected for as long as the profession exists.
CONCLUSION

In this age of information, it is crucial to stay up to date with new trends in technology and the business environment. Every person constantly has to adapt to the ways their environment changes and evolves. Unfortunately with all the great changes in technology there also comes an increased risk. Internal auditors also have to adapt to a change in the business environment and to understand new processed and operations.

A senior lecturer in Forensic Auditing at the University of Pretoria, described internal audit as the “General Practitioner” in Fraud Risk Management. His argument was that a good general practitioner knows when to refer the patient to a specialist and which specialist they should be referred to. Is it not enough then, to be a highly skilled, competent general practitioner? Do internal auditors have to become specialists to survive?

The answer to these questions may very well be: yes! Internal auditors will have to drastically improve their work. Internal auditing needs to add value to their clients’ operations by assessing and addressing their most important risk issues. Internal auditors also need to communicate what they do and who they are so that the internal audit activity can be given the respect and cooperation it deserves. Internal auditors also need to be trained to have the competency, skills and knowledge to perform services effectively.

No aspect of what made the practise of internal auditing what it is today can be left behind in the growth towards the future. Internal auditors have an amazing opportunity to advocate the profession and to stimulate its growth so that it grows into an indispensable part of each and every aspect of an organization. If they can work together to ensure that in a couple of years time, CEOs the world over feel that, in order to be a successful organization, they have to have a strong, competent and efficient internal audit activity, they will have accomplished that goal.
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