Overview of Internal Audit Research
Prepared by IIA – Turkey Academic Relations Committee
Overview of Internal Audit Research

Summary of Internal Audit Related Research prepared by IIA Turkey Academic Relations

Presented by Jared Soileau, CIA, CCSA, CRMA
Dear Members,

The Internal Audit Article Scanning study, prepared by the TİDE Academic Relations Committee Research Sub-Group, has been updated. You can find the summaries of the articles published in "Internal Audit" and "Internal Control" in 2017 here.

Previously the article summary published in 2016 here and 2010 - while 41 article summary covering the years 2015, here you can reach.

Please click here for the translation of the Internal Audit Literature Review 2017, prepared by IIA-Turkey.

For the previous study of 2016 Internal Audit Literature Review please click here.

For the previous study of 2010 - 2015 Internal Audit Literature Review, please click here.

Our respect,

Turkey Institute of Internal Auditors
Journals Reviewed

- The Accounting Review (TAR)
- Critical Perspectives on Accounting
- Accounting, Auditing & Accountability Journal
- Australian Accounting Review
- Contemporary Accounting Research (CAR)
- European Accounting Review
- Auditing: A Journal of Practice and Theory (AJPT)
- Accounting Horizons
- Behavioral Research in Accounting (BRIA)
- International Journal of Auditing
### Journals Reviewed

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<td>Critical Perspectives on Accounting</td>
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<td>Accounting, Auditing &amp; Accountability Journal</td>
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<td>Australian Accounting Review</td>
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<td>Contemporary Accounting Research (CAR)</td>
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<td>Behavioral Research in Accounting (BRIA)</td>
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<td>International Journal of Auditing</td>
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<td><strong>Totals</strong></td>
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Key search terms included Internal Audit, Audit Committee, Internal Control, and Risk Management.
### Alternative View of Identified Studies

<table>
<thead>
<tr>
<th>Journal</th>
<th>Title</th>
<th>Author(s)</th>
<th>Topic</th>
<th>Variables</th>
<th>Data Source</th>
<th>Published</th>
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<tbody>
<tr>
<td>The Accounting Review</td>
<td>The Effect of Using the Internal Audit Function as a Management Training Ground on the External Auditor’s Reliance Decision</td>
<td>William F. Messier, Jr. J. Kenneth Reynolds Chad A. Simon David A. Wood</td>
<td>Internal Audit</td>
<td>( \text{AbsAuditFees} = f(\text{IA Mgmt Training Prog.} + \text{Internal Audit Quality} + \text{Controls}) )</td>
<td>GAIN (Global Audit Information Network)</td>
<td>2011-November</td>
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<td>Contemporary Accounting Research</td>
<td>Internal Audit Outsourcing and the Risk of Misleading or Fraudulent Financial Reporting: Did Sarbanes-Oxley Get it Wrong?</td>
<td>Douglas F. Prawitt Nathan Y. Sharp David A. Wood</td>
<td>Internal Audit</td>
<td>( \text{AcctRisk} = f(\text{IA Quality} + \text{Outsource_{IA}} + \text{Outsource_{ctl}} + \text{Controls}) )</td>
<td>GAIN (Global Audit Information Network)</td>
<td>2012-Fall</td>
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<tr>
<td>Auditing: A journal of Practice and Theory</td>
<td>Does Incentive-Based Compensation for Chief Internal Auditors Impact Objectivity? An External Audit Risk Perspective</td>
<td>Lucy Huajing Chen Hyeesoo H. (Sally) Chung Gary F. Peters Jinyoung P. (Jeannie)</td>
<td>Internal Audit</td>
<td>( \text{Audit Fees} = f(\text{CAE Incentive Based Compensation (Stock, Stock Options, Cash)}) )</td>
<td>Survey of CAEs</td>
<td>2017-May</td>
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<td>Contemporary Accounting Research</td>
<td>Audit Fee Reductions from Internal Audit-Provided Assistance: The Incremental Impact of Internal Audit Characteristics</td>
<td>Lawrence J. Abbott Susan Parker Gary F. Peters</td>
<td>Internal Audit</td>
<td>( \text{Audit Fees} = f(\text{IAF Hours} + \text{IAF Position (Org. Status/Indep.)} + \text{IAF Resources} + \text{IAF Hrs<em>Position} + \text{IAFHours</em>IAFResources} + \text{OutSourced Hours}) )</td>
<td>Survey of CAEs</td>
<td>2012-Spring</td>
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<td>Auditing</td>
<td>The Impact of Internal Audit Function Quality and Contribution on Audit Delay</td>
<td>Mina Plizzini Shu Lin Douglas E. Ziegennuss</td>
<td>Internal Audit</td>
<td>( \text{Audit Report Lag} = f(\text{IAF Quality (competence, objectivity, fieldwork rigor)} + \text{Controls}) )</td>
<td>GAIN (Global Audit Information Network)</td>
<td>2015-February</td>
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<td>The Accounting Review</td>
<td>Does Internal Audit Function Quality Deter Management Misconduct?</td>
<td>Matthew S. Ege</td>
<td>Internal Audit</td>
<td>( \text{Mgmt MisConduct} = f(\text{Internal Audit Quality}) )</td>
<td>GAIN (Global Audit Information Network)</td>
<td>2015-March</td>
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<tr>
<td>Contemporary Accounting Research</td>
<td>Internal Auditing and Corruption within Government: The Case of the Canadian Sponsorship Program</td>
<td>Dean Neu Jeff Everett Abu Shiraz Rahaman</td>
<td>Internal Audit</td>
<td>Qualitative Research Study using information from government agencies.</td>
<td>Commission of Inquiry into the Sponsorship Program</td>
<td>2013-Fall</td>
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<tr>
<td>Auditing</td>
<td>Corporate Managers’ Reliance on Internal Auditor Recommendations</td>
<td>F. Greg Burton Scott A. Emett Chad A. Simon David A. Wood</td>
<td>Internal Audit</td>
<td>( \text{Reliance of Auditor Recommendation} = f(\text{consistency or inconsistency with management preference} + \text{outsourced or in-house IA} + \text{Quantitative or Qualitative}) )</td>
<td>Behavioral Experiment 2,000 MBA Alumni (138 useable responses)</td>
<td>2012-May</td>
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</tbody>
</table>

Key search terms included Internal Audit, Audit Committee, Internal Control, and Risk Management.
Primary Topics

• Associations between:
  – External Audit Fees and Internal Audit Function
    • Quality
    • Management training ground programs
    • Incentive Compensation (Independence)
  – Audit Report Lag
    • IAF quality, competence, objectivity,
    • Resources, coordination with external auditors
  – Reliance on Internal Auditors
    • Management
    • External Auditors
Data Sources

- Global Internal Audit Network
  - (IIA) survey data
- Chief Audit Executive Surveys
  - Hand collected via Mail/Internet
- Experimental Case Studies
  - Use of (MBA) Students
- Government Records
Examples of Studies

• Internal Audit Outsourcing and the Risk of Misleading or Fraudulent Financial Reporting: Did Sarbanes-Oxley Get it Wrong?
  – CAR-2012-Prawitt, Sharp, and Wood
    • “A significant change imposed by SOX was to prohibit the outsourcing of internal audit services to firms’ external auditors. …The knowledge spillover argument…. The economic bonding argument … Given the competing predictions … we examine whether outsourcing internal audit services to the external auditor pre-SOX is associated with higher or lower accounting risk, where accounting risk is defined as the risk that clients’ financial statements contain misleading or fraudulently reported numbers…."
  
  Results indicate that Internal Audit Quality and Out Sourced Internal Audit activities to the external auditor mitigated Accounting Risk while Out Sourcing to Big 4 that were not also the external auditor was associated with higher Accounting Risk.

  – Sample based on GAIN
  – Accounting Risk = f(IA Quality + OutSrc-EA + OutSrc-Big4 + OutSrc-Other)
Examples of Studies

• Does Internal Audit Function Quality Deter Management Misconduct?
  – TAR-2015-Ege
  – “….Using proprietary data, I find that a composite measure of IAF quality is negatively associated with the likelihood of management misconduct even after controlling for board, audit committee, and external auditor quality. This result is robust to a variety of other specifications, including controlling for internal control quality and separate estimation during the pre- and post-SOX time periods. A difference-in-differences analysis indicates that misconduct firms have low IAF quality and competence during misconduct years and improve IAF quality and competence in the post-misconduct years. These findings suggest that regulators, audit committees, and other stakeholders should consider ways to improve IAF quality.”
    – Sample based on GAIN Survey Data
    – Management Misconduct = \( f(\text{Internal Audit Function Quality}\{\text{Quality, Competence, Objectivity, Acct Exp, Certification, Training, IA Mgmt Train. Prog., Independence, and Size}\}) \)
    – Management Misconduct proxied as SEC/DOJ Enforcement Actions, Class Action Lawsuits, FCPA Violations.
Examples of Studies

• Does Incentive-Based Compensation for Chief Internal Auditors Impact Objectivity? An External Audit Risk Perspective
  – AJPT-2017-Chen et al.

• This paper considers the potential impact of internal audit incentive-based compensation (IBC) linked to company performance on the external auditor’s assessment of internal audit objectivity. … We hypothesize that the form of incentive-based compensation, namely stockbased versus cash bonuses, moderates the association between IBC and external audit fee. … *We find a positive association between external audit fees and internal audit compensation based upon company performance.* The association is acute to IBC paid in stock or stock options as opposed to cash bonuses. We also find evidence consistent with the IBC associations being mitigated by the company’s financial reporting risks.
  – Sample based on Survey of CAEs
  – Audit Fees = \( f(\text{CAE Incentive Based Compensation (Stock, Stock Options, Cash)}) \)
IIA-Turkey (TIDE) will begin publishing an academic journal called ACADEMIA focused on Internal Audit
- Topics related to Governance, Risk, Control, and Audit
- Any language (primarily Turkish and English)
- Blind review
- Planned to be an SSCI Journal
- Bi-annual publication
Next Steps

• Access for IAEP Schools
  – GAIN (Global Audit Information Network)
  – CBOK (Common Body of Knowledge)

• Tighter Relations between Internal Audit Academic Community and CREA

• More IAEP affiliated research
Summary References

• 2017 Publications

• 2016 Publications

• 2010-2015 Publications