Quality assurance in internal auditing: an essential tool in ensuring that the expectations of the users of internal auditing services are met

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"Quality is not something you can buy, like a boat or automobile. It is not a machine that can be installed on the third floor. Nor does Japan have a monopoly on quality. Quality is a way of doing business regardless of the continent, language or size of business." (Russell 1990: 3)

The managements of organisations, as well as oversight bodies, have certain needs that inevitably impact on their expectations of the services rendered by internal auditing functions. They further insist that the value that internal auditing functions add to their organisations should be in proportion to the financial expenditure attached to internal auditing functions. The question is raised whether or not internal audit functions are effectively supporting their organisations. Do they understand the needs of their clients and, if so, how can they ensure that they meet those needs?

Internal auditing functions will practise internal auditing optimally and meet their responsibilities in addressing clients’ needs if they comply with the internal auditing standards and give effect to the definition of internal auditing. However, the compliance of internal auditing functions with the internal auditing standards cannot be taken as a given. For this reason, the internal auditing standards require that heads of internal auditing functions implement a quality programme, which entails a process that must ensure and improve the quality of the internal auditing function and the assessment of its efficiency and effectiveness by means of internal and external assessment.

The purpose of this article is to provide a theoretical overview of the importance of the provision of a quality service by internal audit functions in order to ensure that the expectations of the users of internal auditing services are met. Specific attention is given to the following:

- The meaning of quality and quality control in general
- The importance of the provision of a quality service by internal auditing functions
- Expectations of users of internal auditing services
- Conflict between the role of the internal auditing function and the needs of internal auditing clients
- The quality programme and its monitoring as methods of ensuring that internal auditing functions provide a quality service.

Introduction

The internal auditing profession defines internal auditing as follows (IIA 2001: 1):

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

From this definition of internal auditing, it is clear that the internal auditing profession is directed towards the delivery of service. This service should add value to an organisation and improve the activities of the organisation.

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When the management of an organisation establishes an internal auditing function within an organisation, it is entitled to the service that, in terms of the internal auditing profession’s definition of internal auditing, is the responsibility of an internal auditing function. The members of the top management of any organisation ought to set out, in a policy declaration, their specific expectations of the internal auditing function as part of the organisation’s policy document regarding control within the organisation. The charter of the internal auditing function emerges from this policy document and is, among other things, the written agreement between management and the internal auditing function, according to which the expectations that are spelt out in the policy document are carried out (Carolus & Nelson 1996: 8).

The Professional Practices Framework of the Institute of Internal Auditors (IIA) provides guidelines to internal auditing functions regarding the way in which internal auditing ought to be practised. Internal auditing standards and guidelines are regularly revised and updated to ensure that the needs of internal auditing clients may be continuously met. In adhering to the Standards for the Professional Practice of Internal Auditing (hereafter referred to as internal auditing standards), internal auditing functions carry out the responsibilities that appear in the definition of internal auditing. Conforming to the internal auditing standards is thus a method of ensuring that internal auditing functions deliver a service of quality and, in doing so, satisfy the needs of their most important clients.

The quality of internal auditing services can only be ensured if the service rendered is subjected to quality control. One of the internal auditing standards, Standard 1300, requires the head of an internal auditing function to develop and maintain a programme to ensure and improve the quality of the internal auditing function (hereafter referred to as the quality programme) which addresses all the aspects of the internal auditing function and which is continuously checked for effectiveness (IIA 2004: 11).

**Objective**

The objective of this study is to provide a theoretical overview of the importance of the provision of a quality service by internal auditing functions.

**Research problem**

The environments within which organisations operate are influenced by several factors, which could be either external factors (such as developments in information technology, global trading and the demand for transparency) or internal factors (such as strategic orientation, reengineering and risk management, to name but a few). These factors cause managements of organisations as well as oversight bodies to develop certain needs, which inevitably impact upon their expectations of the services rendered by internal auditing functions.

The question is raised whether or not internal audit functions effectively support their organisations. Do they understand the needs of their clients and, if so, how can they ensure that they meet those needs?

In addressing this issue, this article addresses the following:

- The meaning of quality and quality control in general
- The importance of the provision of a quality service by internal auditing functions
- Expectations of users of internal auditing services
- Conflict between the role of the internal auditing function and the needs of internal auditing clients
- The quality programme and its monitoring as methods of ensuring that internal auditing functions provide a quality service.

The article focuses on quality and quality control within internal auditing functions, and not on quality and quality control of the internal auditing profession as such. For instance, the requirements for admission to the Institute, disciplinary rules and other factors affecting quality control of the internal auditing profession in general are not discussed. Unless otherwise indicated, the information that appears in this article applies to both the private and the public sectors, but focuses specifically on internal auditing functions that operate as sections or departments within organisations.

**Research strategy**

In this study, the following research methodology was used:

- Both local and overseas literature on quality and quality control within internal auditing functions, in the form of published books, articles in
professional journals and other journals, as well as published guidelines in the IIA and the Institute of Internal Auditors of South Africa (IIA SA), were consulted.

- Appropriate dissertations, theses and surveys were studied.

**The meaning of quality and quality control in general**

Those who write about quality agree that it cannot be defined in absolute terms but that client satisfaction is a factor in determining quality. “Any quality system should be based on meeting the customers’ needs both internal and external” (CIPFA 1993: 2).

The Chartered Institute of Public Finance and Accountancy (CIPFA) in London defines quality as the complete characteristics and traits of a product or service that satisfies implicit and explicit needs (CIPFA 1993: 53). This definition of quality is also used in the ISO 9000 series of standards and guidelines for the management of quality and quality assurance, as published by the International Organization for Standardization (ISO) (Ridley & Stephens 1996: 77).

According to Russell (1990: 7), from the client’s point of view, quality is getting what you expected and, from the provider’s point of view, getting whatever you deliver right at the first attempt. Stated differently by Russell (1990: 10): “Quality is striving for 100 percent performance and achieving 100 percent customer satisfaction.”

Furthermore, it appears from the literature that the delivery of services or products of quality demands specific inputs from the provider of that service or product. These inputs entail the following:

- A grasp of and disposition towards quality. Quality should be defined according to the specific needs and aims of each organisation. Quality ought to accord with the organisation’s or business’s quality policy and raison d’être (Russell 1990: 14). If an organisation can succeed in combining the right attitude, perfect timing, best equipment, good facilities and a faultless product or service, client satisfaction ought to be a natural consequence, provided it is a product or service for which there is a market (Lefevre 1989: 20).

- Knowledge of the client. To be able to focus on clients’ needs, an organisation must know who the clients are, identify their needs and keep in touch with them (Lefevre 1989: 23). As soon as an organisation knows who its clients are, it can focus on their needs. When an organisation knows what its clients’ needs are, it is able to emphasise the right services (Lefevre 1989: 36).

- Knowledge of the enterprise. Managers should know what is going on in their enterprise. They should also be aware of what quality service (or the lack thereof) costs the enterprise (Lefevre 1989: 39). Russell (1990: 10), however, maintains that quality should not be viewed as costly but as remunerative for those who pursue it. According to him, an enterprise that does not pursue quality might improve its profitability in the short term but, eventually, it will lose its share in the market (Russell 1990: 23).

- A process for ensuring quality. Quality assurance entails planned, systematic steps to ensure that products or services comply with specific quality requirements (CIPFA 1993: 53; Ridley & Stephens 1996: 77). Russell (1990: 13) contends that a quality process should be built into the management structures and day-to-day activities of each organisation.

The latter implies quality control, which is described by Russell (1990: 6) as the processes followed by organisations in order to meet the expectations of a client in the provision of a specific product or service. Thus, although quality means different things to different people, the provision of quality products and services should always:

- Have the satisfaction of clients’ needs as its main aim.

- Be properly researched, planned and managed within each organisation

- Demand purposive control and supervision on the part of the provider.

**Importance to internal auditing functions of providing a service of quality**

The quality of the services provided by internal auditing functions influences, in the first place, the suitability and viability of the internal auditing profession and, ultimately, the viability of internal auditing functions within organisations, or ‘in-house’ internal auditing functions.

**Viability of the internal auditing profession**

“Enhancing the [internal audit] profession’s future viability requires ensuring the quality of internal
auditing services” (IIA 1999: 3). This is not unique to the internal auditing profession. Other professions in South Africa, such as public accounting, engineering and law, even though regulated by South African law regulates them, still have to ensure that they meet the expectations of their major clients in order to enhance their future viability.

According to Miller (2000: 27–35), it would seem that the perceptions of internal auditing by those outside the profession have changed over the years. Miller conducted interviews with individuals in various positions in the American business world.

For example, to David McIntosh, senior manager at an organisation, internal auditing was initially a combination of process checking and random statistical sampling. Now he predicts that internal auditing will be the first profession to be tasked with the appraisal of non-financial assets such as intellectual assets and business relationships (Miller 2000: 28). Initially, Chris Carney, the chief executive officer of an organisation, believed that the main aim of internal auditing was to catch management out for making mistakes (Miller 2000: 29). Today he utilises his organisation’s internal auditing function to add value to the business (Miller 2000: 30).

According to Patrick Lencioni, speaker, consultant and author, internal auditing ought to work at rectifying false perceptions of internal auditing on the part of those who make use of the service. Internal auditors should market a different image of themselves so that executive management will welcome the valuable role that internal auditing could play and teach their employees to do the same (Miller 2000: 29).

However, in the United Kingdom in 1999, a CIPFA survey entitled ‘Perceptions of Audit Quality’ indicated that at the time of the survey, a misconception persisted among internal auditing clients regarding the role that internal auditing functions are supposed to play. The nature of the problem was conveyed as follows in the report (IIA 1999: 35): Auditors recognise that the historical probity-centred role of auditing has been superseded by a positive, forward-looking emphasis on auditing systems and operations. They see their role as adding value to an organisation through offering appraisal and advice on internal systems, backed up by wider business skills. However, the survey shows that auditees, particularly non-financial managers, still primarily associate internal auditing with finding errors and preventing and detecting fraud.

Thus, although internal auditors are aware of the role they ought to play within organisations, in practice they do not always succeed in fulfilling that role in such a way as to change their clients’ perceptions of internal auditing. In order to address these false perceptions, the Guidance Task Force1 has suggested that an image-building programme be implemented by the IIA, with a view to improving the knowledge and worldwide acceptance of internal auditing standards and enhancing the prominence of the internal auditing profession (IIA 1999: 35). The aim of this recommendation is, firstly, to improve the quality of internal auditing by improving internal auditors’ knowledge of standards and, secondly, marketing compliance with the standards to internal auditing clients and other interested parties as a sign of quality. In response to this recommendation, the internal auditing standards have been modified to specify that internal auditing functions can declare that they have conducted an audit based on the internal auditing standards only if they prove their compliance with the internal auditing standards by means of an external quality assessment of the internal auditing function every five years (IIA 1999: 35).

Viability of the ‘in-house’ internal auditing function

For the past decade, the total or partial outsourcing of internal auditing functions has developed into a serious threat, which the internal auditing profession needs to take into account. For instance, Burns (2000: 80) writes: “Every time an internal

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1 During 1997, the Guidance Task Force was commissioned by the Institute of Internal Auditors to investigate the following matters:

- The possibility that there was a gap between developing internal auditing practice and the existing internal auditing standards
- The possible improvement of existing processes according to which internal auditing standards develop and are laid down and the ways in which improvement could be assisted.

The Guidance Task Force consisted of 16 leaders in the field of internal auditing and was representative of all interested parties throughout the world. They met six times, with the first meeting being held in December 1997 and the last meeting in September 1998. The details and results of their investigation are contained in a publication of the Institute of Internal Auditor’s Research Foundation entitled ‘A Vision for the Future: Professional Practices Framework for Internal Auditing’ (IIA 1999: 1).
audit department falls victim to complete outsourcing, it’s a blow not only to the individuals involved but also to the credibility of the profession.”

In an investigation into the outsourcing of internal auditing services (Rittenberg & Covaleski 1997: 71), the researchers came to the conclusion that most of the internal auditing functions that were eventually outsourced did not focus on adding value and improving the management of the enterprise. Nor, very often, were the sections proactive: they failed to initiate change, with the result that their services became less important to the enterprise. This research did not, however, show that only unsuccessful internal auditing functions are outsourced. Successful internal auditing functions are also outsourced. The challenge to each organisation is thus to obtain the right internal auditing service for the right price, and the challenge to existing internal auditing functions is to prove that they provide the right services, which add the most value to the organisation.

Michael Corbett, co-founder and director of the Outsourcing Institute, suggests the following as the motive for the outsourcing of services in general: “Few organizations have the ability to create and maintain world-class capabilities in every aspect of their business, and yet none can afford to be less than world class in any” (Rittenberg & Covaleski 1997: 1).

In the competitive market in which internal auditing functions find themselves today, their pursuit of excellent service is probably the element that will ensure their positions within organisations. “The essential ingredient for exceptional performance by a professional is a passion for excellence” (Fabrizius 1997: 23–24).

Anthony Walz (1997: 51) views as naive and shortsighted internal auditing functions that think of themselves as essential functions with a guaranteed exclusive right to existence and immunity to critical investigation, downsizing and outsourcing. He maintains that, without clear structures through which the adding of value may be demonstrated, internal auditors run the risk of being labelled by management as consumers of resources rather than adders of value.

“Unfortunately, few audit departments base their project list on what the organisation needs most. Instead, internal audit plans are often determined according to what the internal audit department does well – which in many cases means little more than assessing control activities” (Leithhead 2000a: 68). This means that, because internal auditors do not address the most critical issues of many organisations, they endanger their own positions within organisations. Leithhead (2000a: 68) believes that there is a very good chance that an internal auditing function that does not make a meaningful attempt to address the needs of the organisation will be outsourced.

Strategies to manage the risk of becoming irrelevant

Based on the Competency Framework for Internal Auditors (CFIA), of which he was a co-author, Leithhead (2000a: 69) identifies the following strategies that internal auditing functions could use to address the organisation’s needs and to manage the risk of becoming irrelevant:

- Consultation with senior management and line management to ascertain which services are expected of the internal auditing department and to ensure that risk management is properly understood and managed in changing circumstances
- Determining the skills needed by the internal auditing function, in the form of staff, equipment and infrastructure, to meet the needs of the organisation
- Recognising the dynamics of the internal and external environments within which the internal auditing function operates and identifying the risks these hold for the internal auditing function
- Developing a suitable plan of risk management for the internal auditing function
- Creating opportunities for the internal auditing function and optimally utilising such opportunities.

Drent (2002: 53–55) agrees with this and identifies the following four techniques that may be used to prove that the internal auditing function is of importance to an organisation and ought to enjoy recognition:

- An external assessment of the internal auditing function, during which the effectiveness of the function is measured in terms of the expectations of the most important clients
- Discussion with interested parties of the focus and planning of the internal auditing function, bearing in mind the definition of internal auditing
- Continual feedback from internal auditing clients about the quality of internal auditing processes and client satisfaction (either by means of
anonymous questionnaires or direct questions) and the presentation of such feedback to top management and the auditing committee.

- Identification of key performance areas that are important to the client and appropriate criteria that may be used to monitor the performance of the internal auditing function.

According to the IIA, the practice that auditors ought to adopt in order to produce the best quality auditing services and to remain effective over the long term entails the following:

- Complying with the guidelines set out in the ethical code and internal auditing standards
- Aspiring to individual certification as internal auditors
- Executing internal assessment
- Submitting to independent external quality assessment to ensure compliance with the internal auditing standards (IIA 2003: 2).

The foregoing points to the importance of the internal auditing function’s providing proof of the quality of internal auditing services and of their pursuit of the satisfaction of their most important clients’ needs, in order to justify their viability. As discussed earlier, client satisfaction is the chief criterion of quality (CIPFA 1993: 53). When internal auditing functions ensure that they provide a quality service in accordance with Standard 1300, they are satisfying the needs of their chief clients and they can justify their viability (Fabrizius & Serafini 2004: 43).

**Expectations of users of internal auditing services: Who are the users of internal auditing services?**

“Quality is defined as meeting the expectations of customers. Any organization that implements quality standards must make sure that the customers’ (both external and internal) requirements are understood and that the organization is capable of fulfilling those requirements” (Ridley & Stephens 1996: 7).

The internal audit function should thus firstly identify who its clients are, after which the requirements for a quality service in the circumstances can be planned. When the needs of a client change, the internal auditing function should adapt, and, as the pressure on a client increases, the auditing function should seize the opportunity to better assist the client (Bishop, Hermanson, Lapides & Rittenberg 2000: 51).

During their research into a new practice framework for internal auditing, the Guidance Task Force (IIA 1999: 79) investigated the issue of who could be viewed as the internal auditor’s client. The most distinguished internal audit clients singled out by this research are the organisation/department/activity that is audited, and various role-players within such an organisation/department/activity, the external auditors, audit committee, and providers of products and services to the organisation.

Another avenue of thought is that it is better to focus on one client, namely the organisation as a whole. The definition of internal auditing also refers to support of the organisation as a whole, in preference to distinct role-players within the organisation. Ewert (1997: 55) believes that, in practice, this approach means that all internal auditing activities are focused on service to the organisation. It puts the organisation’s interests above any others and brings the aims of the internal auditing function into line with those of the entire management team, by adding value to the organisation, improving the organisation’s activities and achieving the organisation’s objectives.

Whether the focus is on the organisation as a whole, or on the various role-players within the organisation as clients, it is well nigh impossible to compile a complete list of the needs of internal auditing clients. Each organisation is unique as a result of factors such the nature of the organisation, the composition of the organisation, and the market served by the organisation.

**Needs of users of internal auditing functions**

In the course of the literature review for this study, certain needs common to users of internal auditing services became apparent. These common needs will be discussed under eight main points.

**Internal auditing functions must add value to organisations**

“Non value-adding functions are in the spotlight, and internal audit departments that don’t address ‘the things that really matter’ run the risk of becoming dispensable” (Leithhead 2000a: 68).
In the prevailing business environments, each department and employee should add value that is directed to achieving business objectives. As in the case of other business functions, internal audit departments are also expected to show that they are able to produce a reasonable return on the investment that has been made in them (IIA SA 1997: 3). If senior officials within an organisation do not consider the internal audit function as value adding, the function is seen as an expense rather than a resource. It is the responsibility of every internal auditor to make sure that the latter does not happen (Burns 2000: 80). Thus it is crucial that internal auditing functions should seek opportunities to illustrate their value to organisations. They should build relationships based on mutual respect, trust and teamwork with managements, organisations and boards (IIA SA 1997: 3). According to an article by Miller (2000: 27–35), in which the requirements of various users of auditing functions are expressed, internal auditing functions will be respected if both senior management and the board are convinced that the chief aim of the internal auditing function is to improve the organisation (Miller 2000: 33). Internal auditors should do the following to instil the latter conviction in management and the board of directors:

- Focus on ways of adding value to the organisation instead of simply reporting on procedures and policy that have not been followed (Miller 2000: 32; Leithhead 2000a: 68)
- Be proactive by reporting mistakes when they are identified so that processes can be rectified immediately, rather than after the formal internal audit report is submitted (Miller 2000: 29)
- Be involved in identifying risks as well as identifying and suggesting methods of dealing with those risks (Miller 2000: 32; Leithhead 2000a: 68)
- Adopt auditing approaches that are flexible and adaptable in order to reflect changed business environments (IIA SA 1997: 3)
- Not rely only on their own skills, but obtain assistance from specialist consultants when necessary (IIA SA 1997: 3)
- Anticipate the organisation’s future needs and develop internal audit expertise in those fields (Burns 2000: 80)
- Be capable of rapidly summing up new situations and making valid recommendations (IIA SA 1997: 3)
- Inform decision-makers about the most probable outcomes of possible decisions and provide meaningful feedback on the results of decisions taken (Steinberg & Pojunis 2000: 36)
- Accomplish changes that improve processes and promote the effectiveness of the organisation (Miller 2000: 34).

Internal auditing functions should perform a consultative function

As internal auditors become more involved in corporate control, opportunities arise for them to give guidance and act as management consultants. Because they know so much about the inner workings of their organisations, internal auditors ought to be the first to be approached – in their professional capacities – by top management to assist with strategic decision-making issues (Miller 2000: 28). For instance, internal auditors should advise any team that decides on changes in the composition of an organisation, and should assist in identifying risks that need to be taken into account in the consideration of new business opportunities (Miller 2000: 30). Internal auditors should support management. They must identify areas in which management might have an interest, provide support where necessary and give management the information it requires to do its work (IIA SA 1997: 2–3).

In addition, internal auditors should foster best practice within organisations, thereby improving processes. Internal auditors should act as more than consultants, by assisting staff members to achieve their objectives. They should not only point out areas for improvement but also make recommendations that will solve problems (Miller 2000: 34).

Internal auditing functions should contribute to good corporate governance and exercise a positive influence on corporate culture

“An effective internal audit function should provide:

- Assurance that the management processes are adequate to identify and monitor significant risks;
- Confirmation of the effective operation of the established internal control systems;
- Credible processes for feedback on risk management and assurance ..” (Institute of Directors in Southern Africa 2002: paragraph 4.2.2).

Internal auditors need to understand the pressure exerted by shareholders and interested parties on the management of an organisation and should assist management with proper corporate govern-
ance. This implies that internal auditors must identify all factors that influence corporate governance in general and the organisation’s specific circumstances in particular, and at all times keep abreast of all the factors that might influence good corporate control. They need to process this knowledge in order to suggest actions to management and the audit committee that will help management safeguard the organisation against familiar as well as hypothetical risks (IIA SA 1997: 2–3).

An important contribution that the internal auditing function can make to corporate governance is to advise boards of directors about the adequacy of internal control systems. To this end, the internal audit function should have direct access to and good communication with the board or top management of the organisation (Miller 2000: 30).

Internal auditing functions may also help to establish effective audit committees within organisations. By cooperating in a consultative capacity with senior management, internal auditors can explain the skills that an audit committee ought to have in order to adapt to the organisation’s unique requirements. They could make available to the board the latest guidelines published in the commercial sector relating to the requirements with which audit committees are expected to comply, and give their input as to whether those who are nominated to serve on audit committees have the appropriate knowledge of financial and business matters (Miller 2000: 32; Marks 2003: 42).

“A Mc Kinsey worldwide study showed investors are willing to pay up to 27% more for companies with good corporate governance” (Binneman 2002: 12). Investors thus place a premium on good corporate governance and a sound corporate culture within an organisation. Internal audit contributes to security, which elevates the organisation’s value in the eyes of its clients, owners and credit providers (Miller 2000: 31). Internal and external auditing is necessary to ensure honesty, predictability, continuity, accuracy and reliability (Miller 2000: 35).

In order to contribute to good corporate culture, internal auditors need to have a thorough knowledge of the organisation’s culture (Miller 2000: 32) and advise management on the exercise of best practices, pursue standards and comply with legislation (Miller 2000: 34).

For instance, internal auditing functions may assist in establishing an ethical code within organisations and introducing this to the staff. They could then analyse any transgressions of the ethical code and point out repetitive matters and trends. They could evaluate and monitor the existence, utilisation and effectiveness of communication channels within the organisation (Steinberg & Pojunis 2000: 38).

Compliance with the audit committee’s requirements means that the internal auditing function also needs to ensure that there are proper control measures in place, even when these apply to senior management (Wagner 2000: 1; Reding, Barber & Digirolamo 2000: 45). Internal auditors ought to assess the corporate structure to identify opportunities that could give rise to fraud, such as irresponsible conduct on the part of management and boards, inefficient and ineffective boards and inadequate control systems. They should also identify and report on circumstances that could influence senior management to make unethical decisions or behave unethically, such as transactions that could lead to conflicts of interest, excessive remuneration of directors and top management, and transactions that are not made public (Rezaee 2002: 61).

**Internal auditing functions should be supplied with well-trained staff whose knowledge is appropriate to the organisation**

Internal auditing functions have a complicated mandate that makes great demands on the knowledge and skills of internal auditors (IIA SA 1997: 2). Managements of internal auditing functions should thus anticipate the future needs of organisations and analyse the internal auditing department’s capacity to meet those needs. With this information, the internal auditors are able to prepare themselves by undergoing the necessary training and acquiring skills that might be needed to provide for the organisation’s future requirements (Burns 2000: 80). Equipped with the appropriate knowledge, internal auditors can appropriately advise management on appropriate steps to discern, understand and deal with critical vulnerabilities (Leithhead 2000b: 59).

Besides having good academic qualifications, whether these are oriented towards the financial, computer or business fields, as well as the qualification of Certified Internal Auditor (CIA), internal auditors should also have personality traits such as the following:

- Creativity, ability to make accurate assessments of situations and a natural tendency towards correct behaviour
- Good judgement, strong character and a balanced view of things (Wagner 2000: 5; Leithhead 2000c: 69).
Internal auditing functions should learn to understand organisations from a business perspective and to grasp the aspects that are important to management and business functions

“Directors want to sleep comfortably knowing major surprises won’t hit their companies” (Steinberg & Pojunis 2000: 39). From this need follows the basic role of internal auditing functions, namely, to help organisations to achieve their goals. The goals of management and the organisation should form the focal point of internal auditing practice. The closer the internal auditing function can get to knowing what and how managers think, the greater the potential contribution the function will be able to make and the greater the chances that it will contribute to achieving the goals of the organisation (IIA SA 1997: 2–3; Steinberg & Pojunis 2000: 38–39; Van Wyk 2002: 14).

The management of the organisation is responsible for dealing with risks. Internal auditing is supposed to have an in-depth knowledge of risk and ought to be involved in the processes whereby risks are ascertained, measured and managed. Internal auditors are in the best position to identify and investigate risk at the highest level (Steinberg & Pojunis 2000: 36).

Internal auditing functions ought to report objectively to the managements of organisations about the effectiveness of the organisations’ risk management processes. By contributing to an organisation’s risk management process, internal auditors may help to ensure that projects are effectively run and that project objectives are accomplished. If they understand the organisation, internal auditors are also able to identify what does not necessarily relate to a specific audit. Internal auditing functions ought to ensure that the organisation’s top management receives the necessary information regarding the extent to which strategies are brought to fruition. Moreover, they can assist management by providing more future-oriented information, as well as criteria and comparisons for the measurement of organisations’ performance in relation to the market (Leithhead 2000b: 59; Steinberg & Pojunis 2000: 38; Miller 2000: 30; Wessels 2002: 10).

Internal auditing functions should provide appropriate information

“An effective internal audit function should provide: ... objective confirmation that the board receives the right quality of assurance and information from management and that this information is reliable” (Institute of Directors in Southern Africa 2002: paragraph 4.2.2).

Because boards draft policy, they need a constant, available and reliable source of information (Steinberg & Pojunis 2000: 36). Internal auditors are able to collect information and to provide assurance that all information is accurate and complete (Steinberg & Pojunis 2000: 37).

To be able to function effectively, audit committees also need timely and reliable information about the risks and control systems of organisations with which they are involved. Internal auditors could take the lead in developing effective information systems that provide audit committees with objective, detailed and consumable information. They should also assess the effectiveness, reliability and usability of information on a continuous basis (Rittenberg 2002: 32).

Clikeman (1999: 32–33) maintains that, traditionally, internal auditors assessed the reliability and accuracy of information, which is important, but that they add more value by expanding their scope to all the aspects of quality information, namely appropriateness, promptness and costs. He illustrates these aspects as follows:

- Appropriateness. Before internal auditors confirm the accuracy of a report or a database, they should ascertain whether the information is appropriate, in the sense of being informative and suitable for making decisions. They should also consider whether the collection and reporting of information is not being duplicated elsewhere in the organisation.
- Promptness. Internal auditors should analyse the information needs of decision-makers and make sure that the information is received regularly enough and in sufficient time to support optimal decision-making.
- Costs. Internal auditors can assist their organisations to make significant cost savings by assessing the efficiency of their organisations’ information systems and ensuring that they are economically run. In addition, internal auditors should consider whether their organisations are making adequate use of new innovations in information technology.

Internal auditing functions should be a partner in business – not simply criticise

Chapman (1998: 40) predicts that the viability of internal auditing functions that continue to cling to
the traditional role of internal auditing are in jeopardy, but that internal auditing functions that adapt to new avenues of thought can play a challenging and exciting role within organisations and add a great deal more value to their organisations. She maintains that internal auditors should sometimes stand aside from the rules and look at the auditing process as a whole. It is important for auditors to take some time to understand the activities they examine and to think about the aim of an auditing project.

Internal auditors should understand their position within the organisation. They should always take into account their role as partners and consultants (Miller 2000: 34). Their aim should be to help. Instead of simply reporting problems, they should make recommendations to solve the problems. Internal auditors ought to be encouraged to make meaningful suggestions. They should enhance their role as partners in business by behaving reasonably and objectively (Miller 2000: 30).

Instead of rapping others over the knuckles, internal auditors should make a positive contribution by cooperating with policy-makers and systems developers to realise a joint goal (Miller 2000: 31).

Control should be driven by processes and systems rather than by people. If people apply control, it arouses resistance. For this reason, internal auditors should not point a finger at anyone or tell people what to do. They should treat members of staff whose work they scrutinise as reliable adults who are capable of doing the work to the best of their ability. They ought to take into account the fact that their clients are human beings and focus on auditing processes that foster respect, confidence and adult relationships (Miller 2000: 35).

Internal auditing functions ought to market themselves

"There is a close correlation between the amount of communication between internal audit and senior management, and top management’s perception of the function” (Van Wyk 2002: 14).

Managements of internal auditing functions cannot expect senior officials within organisations to discern and appreciate the advantages of internal auditing themselves. The abilities of internal auditing functions and what they have achieved need to be deliberately brought to the notice of top managements and auditing committees. Where possible, internal auditors should be assigned to tasks where their visibility is promoted. They should be encouraged to play a public role within the organisation. Marketing the talents and contributions of the internal auditing staff draws attention to the value of internal auditing functions to their enterprises and reduces the probability of their being outsourced (Burns 2000: 80).

Conflicts between the role of the internal auditing function and the needs of the internal auditing clients

One of the objectives set when the internal auditing definition was revised in 1999 was that the new definition should indeed be used to provide guidance to the internal auditing profession. For this endeavour to succeed, the definition had to explain the true nature of internal auditing as practised today, and convey the vision of the internal auditing profession to all who practise internal auditing or have another interest in it (IIA 1999: 5).

In the light of this, the definition of internal auditing that has been acknowledged by the IIA should be used as the point of departure in any discussion of the role of the internal auditing function within an organisation.

The internal auditing definition and internal auditing standards provide sufficient latitude to internal auditing functions to meet the needs of their clients, provided that their independence and objectivity is retained. The extent to which an internal audit function gives effect to the image portrayed by the internal auditing definition and complies with the internal auditing standards depends on each internal auditing function. However, the boards of organisations are largely responsible for the efficiency and effectiveness of their internal auditing functions in ensuring that such functions have proper mandates according to which they can fulfil their responsibilities. “The board will get the type of internal audit function it deserves. In their own interests, all directors should act to ensure an effective internal audit, providing assurance in relation to risk management, control and governance processes” (Payne 2002: 7).

Nonetheless, the needs of various internal auditing clients can still cause a degree of conflict between internal auditing clients and internal auditing functions. Drent (2002: 50) describes this conflict as follows: “Daily, internal auditors face the challenge of reconciling their need to make a meaningful
contribution to the business with meeting the needs of their key customers — the audit committee, executive management and line management.”

Internal auditing clients have various needs, which should be met by the internal auditing function. If internal auditing functions do not play their part properly with their prominent clients, it could give rise to conflict, with the result that organisations would not receive optimal service from internal auditing functions (Van Wyk 2002: 14).

Internal auditing functions should at all times consider whether or not they are meeting the needs of both the audit committee and the board. For instance, the board would be interested to know whether the control measures are adequate, properly implemented and receiving the attention of management. The most valuable contribution on the part of the audit committee is to conduct independent investigations of business processes that ensure the proper safeguarding of the activities of an organisation and its preparedness for future events (Miller 2000: 33).

Drent (2002: 51) and Van Wyk (2002: 14–5) point out the following underlying conflicts in the requirements of internal auditing clients:

- Executive and line management do not always understand the fact that internal auditors must be independent. Many executives and line managers view internal auditors as employees of the enterprise, and their reporting to the audit committee is seen as no more than a formality to provide reassurance for the purpose of corporate governance. If internal auditors insist on their independence, management tends not to view them as part of the team. In contrast to this, the auditing committee attaches great value to the independence of the internal audit function.

- Sometimes executive management is inconsistent about defining the role of internal auditing functions, expecting them to provide independent opinions in some areas and requesting them to fulfill operational responsibilities in other areas. The result of this is that internal auditing functions are obliged to play the partial role of advisors while being used partially to keep the activities of the business under control. It is difficult for internal auditors to market their advisory services as long as management uses the internal auditing function as a weapon for exercising control.

- By their very nature, advisory services are more time-consuming than insurance services. With limited resources and the priority given by management to regulatory requirements, internal auditors do not have sufficient time to act in an advisory capacity. This means that employees might experience the auditing function as a policeman rather than as a business advisor.

It is the chief audit executive’s responsibility to manage such conflicts. Communicating openly with the most important clients and being prepared to ask for feedback, even if this is not pleasant, could influence internal auditing clients to form a better understanding of the role of the internal auditing function and could contribute to the ability of the auditing function to satisfy the needs of their clients (Van Wyk 2002: 14).

The quality programme and its monitoring as methods of ensuring that internal auditing provides a quality service

“The internal audit profession is based on the concept that impartial assessments, feedback and recommendations help to render overall enhancements. In fact, there’s often no better performance indicator than the observations of a knowledgeable, objective, third party. Reality is sometimes hardest to see – and improvements most difficult to make – by those closest to a subject matter” (Miller 2000: 2).

One of the objectives set for the internal auditing profession by Bookal (2002: 47), the 2002/2003 international chairperson of the IIA, was to promote professionalism and the competence of internal auditors. He believed that one way of achieving this would be for the IIA to encourage internal auditors to provide evidence of quality within internal auditing functions by regularly having the quality of their services assessed.

Within the internal auditing function, quality control has the satisfaction of the client’s needs as its chief aim. According to the Guidance Task Force (IIA 1999: 56), the existence of internal auditing functions is justified by the service they deliver to organisations.

The definition of internal auditing, which defines this service to the organisation, indicates that internal auditing is designed to add value, to improve the operation of organisations, and to help them to achieve their objectives (IIA 2004: xxvii).

The Professional Practices Framework, in which the definition of internal auditing, the internal
auditing standards, the ethical code and the practice guidelines for internal auditing are contained, is the recognised guideline of the internal auditors’ profession, according to which internal auditing practice must be implemented. Internal auditing functions will practise internal auditing optimally and meet their responsibilities in addressing client’s needs if they comply with the internal auditing standards and give effect to the definition of internal auditing.

However, the compliance of internal auditing functions with the internal auditing standards cannot be taken as a given. For this reason, the internal auditing standards determine that heads of internal auditing functions must implement a quality programme (IIA 2004: 11). Standard 1300 of the internal auditing standards stipulates that a quality programme must be put into operation within internal auditing functions, developed with the purpose of helping the internal auditing function to add value and to improve the activities of the organisation. In addition, the programme should provide assurance that the internal auditing function will act in accordance with the internal auditing standards and the ethical code (IIA 2004: 11).

The quality programme entails a process that must ensure and improve the quality of the internal auditing function and the assessment of its efficiency and effectiveness by means of internal and external assessment.

The internal auditing standards require that the quality programme has to:

- Cover all aspects of the internal auditing function, including consulting services
- Continually monitor the effectiveness of the internal auditing function and develop performance measures
- Assure compliance with the internal auditing standards and the Code of Ethics
- Help the internal auditing function add value and improve organisational operations through surveys and dialogue with management
- Include both periodic and ongoing internal assessments
- Include an external assessment at least once every five years, the results of which are communicated to management and the audit committee or appropriate oversight board (IIA 2003: 56).

The omission of any of these elements from the quality programme represents non-compliance with the internal auditing standards. Standard 1330, which encourages internal auditors to report: “that their activities are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing”, also includes a provision that internal auditors may use the statement only if assessments of the quality programme demonstrate that the internal audit activity is in compliance with the internal auditing standards (IIA 2004: 12).

The purposes of the quality programme are threefold: firstly, to assess the effectiveness of the internal auditing function in providing assurance and consulting services to the board, senior executives and other interested parties; secondly, to assess conformance to the internal auditing standards and provide an opinion on whether the internal auditing activity generally conforms to all of them; and thirdly, to identify opportunities, offer recommendations for improvement and provide counsel to the chief audit executive and internal auditing staff for improving their performance and services and promoting the image and credibility of the internal auditing function (IIA 2003: 7).

The quality programme, and the regular assessment thereof, should thus assist the internal auditing function in adding value to and improving the activities of the enterprise, and ought also to ensure that the internal auditing function gives effect to the definition of internal auditing, meets the internal auditing standards and, ultimately, fulfils the needs of its clients.

**Conclusion**

Internal auditing functions should endorse the fact that the quality of their service is directly dependent on the following two factors:

- Knowledge of the requirements of their clients
- Provision of a superlative service that meets the needs of their clients.

If internal auditing functions provide a quality service that complies with the requirements of their users and adds value to their organisations, they will be able to ensure the viability of internal auditing functions. Producing products and services of quality demands purposeful action on the part of the provider (in other words, thorough research, planning and managing within each organisation). Marketing the services of the internal auditing function, as well as communication, feature prominently here. The services of the internal auditing function need to be made known within the
organisation, and good communication with all levels of management within the organisation is necessary in order to reach agreement on the role to be played by the internal auditing function within the organisation. Where there is conflict between the needs of clients and the services that the internal auditing function is able to deliver in terms of its ethical code and the internal auditing definition, negotiation with the client will be necessary until both parties have reached an agreement with which they are satisfied. Proper quality control within internal auditing functions is indispensable in order to ensure that internal auditing functions meet the requirements of their users on a continuous basis. Quality control also serves as an opportunity for open communication between management and the chief audit executive and as a marketing opportunity for keeping management abreast of the services that the internal auditing function can offer.

References


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