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Giuseppe D'Onza,
University of Pisa

Gerrit Sarens,
Nathanaël Betti,
Louvain School of Management

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(president-ilsml@uclouvain.be)

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Summary

This study examines the relationship between the internal auditing function (IAF) and the auditees with the attempt to identify the factors influencing the IAF's ability to add value to them. The analysis is based on the responses of 78 Italian Chief Audit Executives (CAEs) who took part in a survey carried out in 2014. The analysis of the survey's results indicates three factors which are positively and significantly associated with a transparent, collaborative, constructive and partnering relationship between the IAF and the auditees: 1) the integration of the inputs of senior management in the setting up of the audit plans; 2) the use of the IAF as a management training ground and 3) the regular revision of audit methodologies. Moreover the results of the regression analysis indicate that there is a negative and significant association between the diversification of the IAF's activities and the ability of the IAF to create a positive collaboration between the auditees.

Keywords : Internal Audit, Value, Auditee, Stakeholder

Corresponding author :

Prof. Gerrit Sarens
Center for Excellence : CESAM/
Louvain School of Management / Campus Louvain-la-Neuve
University of Louvain-la-Neuve
Place des Doyens, 1
B-1348 Louvain-la-Neuve, BELGIUM
Email : gerrit.sarens@uclouvain.be

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President-ilsml@uclouvain.be, ILSM, UCL, 1 Place des Doyens, B-1348 Louvain-la-Neuve, BELGIUM
www.uclouvain.be/ilsml and www.uclouvain.be/lsm_WP

FACTORS ENHANCING THE INTERNAL AUDITING FUNCTION'S ABILITY TO ADD VALUE TO THE AUDITEES. EVIDENCE FROM ITALIAN COMPANIES.

GIUSEPPE D'ONZA¹

GERRIT SARENS²

NATHANAEL BETTI³

Abstract: This study examines the relationship between the internal auditing function (IAF) and the auditees with the attempt to identify the factors influencing the IAF's ability to add value to them. The analysis is based on the responses of 78 Italian Chief Audit Executives (CAEs) who took part in a survey carried out in 2014. The analysis of the survey's results indicates three factors which are positively and significantly associated with a transparent, collaborative, constructive and partnering relationship between the IAF and the auditees: 1) the integration of the inputs of senior management in the setting up of the audit plans; 2) the use of the IAF as a management training ground and 3) the regular revision of audit methodologies. Moreover the results of the regression analysis indicate that there is a negative and significant association between the diversification of the IAF's activities and the ability of the IAF to create a positive collaboration between the auditees.

1. Introduction

Adding value to its stakeholders is an imperative for the internal auditing function to maintain and develop its organizational relevance. The emphasis assigned to the issue of the added value of an internal auditing function (IAF) has inspired several studies which have attempted to identify the factors enhancing the value this function provides for its stakeholders.

The analysis of the literature highlights two main approaches that studies have followed for the analysis of the internal auditing (IA) value drivers. The first and most prominent (in terms of number of studies) seeks to identify these drivers considering the IAF as a whole without distinguishing between the stakeholders served. The findings of these studies show great variation in the factors enhancing the IAF effectiveness. For example, Albrecht et al. (1988) indicate the support of senior management as one of the most important factors to increase the IAF's ability to add value. Cohen and Sayag (2010) identify two further value drivers: the organizational independence of the IAF and the quality of the audit work. Mihret and Yismaw (2007) find a positive relationship between the IAF effectiveness, high technical skills of internal auditors and the wide range of services the IAF provides. A recent study (D'Onza et al., 2015) shows that the IAF's ability to add value is positively influenced by the independence and the objectivity of the IAF, the compliance with the Institute of Internal Auditors' (IIA) Code of Ethics and the contribution this function provides to enhance the quality of internal controls and risk management.

These differences in the adding value factors might be interpreted as an indicator that what constitutes an adding value characteristic of the IAF varies between the contexts, the time, the situations in which this function operates and, probably, in relation to the stakeholders served. Commenting the diversity of the IA value adding factors, Roth (2000) concludes that to generate value the IA roles and activities should be tailored to the characteristics of the organization's environment and culture as well as to the specific needs of its stakeholders.

¹ Professor at University of Pisa : giuseppe.donza@unipi.it

² Professor at Louvain School of Management : gerrit.sarens@uclouvain.be

³ Louvain School of Management : nathanael.betti@uclouvain.be

The second approach investigates the adding value factors looking at the relationships between the IAF and its multiple stakeholders. Analyzing the relationship between the IAF and its "two masters" (senior management (SM) and the audit committee (AC)), researches (Abbott et al., 2010; Soh and Martinov-Bennie, 2011; Roussy, 2015; Hoos et al., 2014) argued that the IA value drivers for SM do not necessarily correspond to those for the AC. These differences stem from the various expectations and priorities of these stakeholders. In a few words, while senior managers expect the IAF to support them with valuable recommendations to improve the efficiency and the effectiveness of business processes, the AC members require the IAF to provide them with an independent assessment of the company's risk management and internal control systems.

Other studies have analyzed the factors that influence the perception of external auditors regarding the IAF effectiveness (Gramling, 1999; Felix et al., 2001; Krishnamoorthy, 2002,). These studies find that external auditors perceive the IAF as more effective when internal auditors have professional certifications, a greater expertise on accounting practices and use advanced methods and tools to perform their activities. The analysis of the IAF effectiveness together with the consideration about the independence of the IAF influence the external auditor's decision to rely on the work performed by the IAF in financial auditing engagements (Messier, 2011).

On the contrary very little research has been undertaken on the analysis of the value the IAF creates for the auditees. Although the auditees are one of the main stakeholders the IAF serves, up to now the analysis of the factors influencing the IA's ability to add value to them is a largely under-examined subject. Exceptions include a small number of conceptual works and two empirical studies.

Regarding conceptual works, Anderson (2003) highlights important differences existing in the IA value proposition for the auditees (operating managers) and for the AC members. As operating managers' expectations differ from those of the AC members, the value drivers for the IAF differ from one stakeholder to another. Particularly, he argues that the IAF adds value to auditees when it helps them to identify potential cost savings and increase the efficiency of the processes under their responsibility as well as when the IAF discovers opportunities for improving the effectiveness of company's operations. Wealleans (2000) confirms this saying that the auditees consider the IAF effective when its recommendations are not trivial and help them to improve working practices. Dittenhofer (2001) provides further support highlighting that the IAF is effective when it helps the auditees to achieve their goals and objectives. As said all these studies do not provide empirical evidences on the factors which can enhance the IA's ability to add value to this important customer of the IAF.

A few suggestions may be found in the studies which have empirically examined the relationship between the IAF and the auditees. For example, the study Arena and Azzone (2009) carried out in Italy shows that the IA effectiveness increases when: the ratio between the number of internal auditors and the employees increases; the CAE is affiliated to the Institute of Internal Auditors; the company adopts CRSA techniques and the audit committee is involved in IA activities planning. It is interesting to note that this study measures the IA effectiveness in terms of the percentage of the IA suggestions implemented by the auditees. Although this indicator is an important measure of the value created by the IAF, it just captures one aspect of the complex relationship existing between the internal auditors and the auditees.

Another empirical study (Elliott et al.; 2007) which is based on a survey with the auditors and the auditees in a British company, highlights that internal auditors are sometimes not perceived as a value adding activities by auditees and the reasons are: 1) a low capacity to analyze the root causes of the problems found and 2) a scarce quality of improvement actions suggested.

Our study aims at contributing to the debate on what characteristics of the IAF and of internal auditors improve the relationship between this function and auditees. Based on the responses of 78 Italian CAEs who participated to a survey carried out in 2014, this study intends: 1) to analyze the quality of the relationships existing between internal auditors and the auditees to understand whether the IAF has built transparent, collaborative, constructive and partnering relationship with auditees and, thereby, has created the conditions to add value to them; 2) to test the correlation between the IAF's ability to build effective relationships with the auditees and potential value drivers which are drawn from the extant literature on IA.

Consistently with the majority of the empirical studies on the IAF effectiveness (Lenz and Hahn, 2015), the adding value processes are here analyzed from the "supply-side" perspective of those providing the internal audit services. Particularly we consider the perceptions of the heads of IA (CAE) regarding the IAF's ability to create value to the auditees.

This study intends to contribute to the literature in several ways. First, it adds to studies on the added value of the IAF contributing to identify the factors enhancing the IAF's value proposition for the auditees. Lenz and Hahn (2015, p. 17) indicate this subject as an area for future research which can help to understand what are the key skills and competencies that help "obtain acceptance and appreciation of IA findings so that the auditee eventually resolves surfacing issues".

Secondly, it contributes to the debate aiming at determining which of the performance evaluation methods are the most suitable to evaluate the IAF effectiveness (Ziengefussen, 2000; Frigo, 2002). Our paper differs from Arena and Azzone's study (2009) which examines the IAF's ability to add value to the auditees using a single performance measure: the percentage of IA recommendations the auditee has implemented. We believe that this measure is relevant to examine the value added of the IAF but it captures only an (often short term) element of the added value puzzle. Therefore we have decided to complement this with other measures to examine other facets of the complex relationship between internal auditors and the auditees. Particularly we assess the quality of the relationship existing between the IAF and the auditees using a qualitative scale in which we identify as a minimum level of interaction the building of transparent relationship and as maximum the existence of partnering relationship. We believe that in this way one can have a greater understanding of the extent to which the IAF adds value to the auditees.

Moreover this study provides contributions for practitioners helping them to identify the factors enhancing the building of effective relationships with the auditees. Professional studies indicate (Chambers, 2013) that the ability of the IAF to create collaborative relationships with its main stakeholders is a critical success factor for the IAF effectiveness. Thereby, our study's findings provide insights that can help the CAE to identify the value adding factors which increase the value this function adds to the auditees.

Furthermore the approach applied in this study to analyze the relationships between the IAF and the auditees could be used to support the development of the IAF performance measurement system. Several studies (Sarens et al., 2011; Chen and Lin, 2011) have found that less mature IAF do not have any system to measure their performance. Therefore CAEs can use the methodology proposed in this study to improve it and can adapt the relationship scale proposed in the following section to analyze also the relationships between the IAF and other stakeholders (e.g. the Board, the Audit Committee, other assurance providers).

The remainder of this paper is organized as follows. The next section reviews prior literature and develops our hypotheses. Succeeding sections discuss research methodology, followed by research results. Our final section provides a discussion of the empirical findings and conclusions.

2. Literature review and research hypotheses

2.1. The relationship with IA stakeholders

Internal auditors serve a wide group of stakeholders providing them with assurance and consulting services in order to satisfy their variegated requests. Ideally, the IA should take into account all the different stakeholders' expectations in order to satisfy them completely (Güner, 2008). Practically, this is not feasible. Friedman and Mason (2005) point the fact that the stakeholders are heterogeneous and the need to prioritize them. As the number

of the IA stakeholders has increased over the time, the debate about who is the most prominent stakeholder of the IAF has expanded. Several studies (Chambers, Odar, 2015; Bolger, 2011) maintain that internal audit's primary stakeholders should be the board in order to preserve the independence of the IAF from senior and operating management. This position became clearer after 2009 when the Institute of Internal Auditing in revising the International Professional Practices Framework defined that: "Organizational independence is effectively achieved when the chief audit executive reports functionally to the board" (IIA, 2009). Nevertheless, in the organization's life, the issue of "who" the CAE perceives as the most important stakeholder of the IAF might not appear so clear for different reasons (Anderson, 2003). Global study (Alkafajy et al., 2011) on the IA profession around the world highlights factors like the inexistence of well-defined functional and administrative reporting lines, the involvement of numerous actors in the CAE appointment and evaluation processes which can create confusion. Moreover other organizational and governance factors like the leadership skills of the CEO, the Chairman and other key persons, the Board's composition might also contribute to create confusion in the CAE's perception.

This confusion can produce negative effects on the effectiveness of the IAF. For example, it becomes more difficult for CAE to define the relevance and the priority to assign to stakeholders' requests and, consequently, to set up a valuable internal audit strategy and effective audit plans. This confusion might also reflect negatively on the IA tactics, impairing the performance of the audit engagements and day-to-day operations. Thereby the IAF might perform its activity in a way that does not satisfy the stakeholders' expectations reducing their perception that the IA is a value added function. All these considerations lead us to the following research hypothesis:

Hypothesis 1: *There is a negative association between the confusion about who the most important IA stakeholder is and the IAF's ability to add value to the auditees*

2.2. Audit planning

Studies have highlighted that an important value added attribute of the most successful IA department is the alignment between the goals and activities of the IAF, the objectives of the organization and the expectations of the main IA stakeholders (Roth, 2000). Consequently, the approaches used to develop the internal audit plans at macro and micro levels should help the IAF to create, maintain and reinforce these alignments (Hass et al., 2006). Anderson and Svare (2012) maintain that the analysis of senior management expectations is a fundamental step for an effective planning of internal auditing activities as it permits focussing the IA services on those processes and operations that senior managers perceive as the most critical to enhance the firm's performance. Christopher et al. (2009) support this by suggesting that input from the CEO and CFO should be solicited, given their ability to identify high risk areas in which audits are warranted. Sarens and DeBeelde (2006) further confirm this by noting that internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value adding activity in order to reduce the expectation gap. Moreover the professional standards require the CAE to identify and consider the expectations of senior management, the board and other stakeholders in order to determine the priorities of the internal audit activity consistent with the organization's goals (IIA, 2013). The analysis of the senior management expectations in the audit planning process (macro level) helps the IAF to become much more business and operationally oriented and offer the CAE greater possibilities to recognize the risks which are the most critical for the firm to meet its strategic objectives (Selim, McNamee, 1999). Furthermore, the analysis of senior management expectations also determines positive results for the planning of each individual audit engagement (micro level) because it helps the IAF to focus its monitoring role on those risks which are the most critical for the efficiency and effectiveness of company's processes to be audited. Moreover a greater and deeper understanding of the business risks and priorities helps the internal auditors to create empathy with auditees (Chambers, 2013) and provide more valuable advice and recommendations for them (Castanheira et al., 2009). Taken these considerations together suggest that when CAEs take into account inputs of senior management in audit planning, the IAF has greater possibilities to build constructive and collaborative relationship with the auditees and to be considered as a value added function. Hence, the second research hypothesis is as follows:

Hypothesis 2: *There is a positive association between the integration of senior management expectations in audit planning process and the IAF's ability to add value to the auditees*

2.3. Number of IA activities performed

Debating about the value adding factors of the IAF, Roth (2000) argues that an excellent IAF offers an extensive array of services in order to meet various stakeholders' demands. An empirical study the IIA carried out in US (IIA, 2011) confirms this by pointing out the fact that to add value to managers the IAF should expand beyond the traditional auditing activities (compliance, financial, operational) and perform emerging types of audit identified with enterprise risk management, project management, social and sustainability audit and corporate governance review. More recently, another international empirical study (Selim et al., 2014) highlights that the CAEs interviewed across countries indicate that when an IAF demonstrates flexibility and can manage a diversified audit plan, its stakeholders' level of satisfaction will tend to increase. However the performance of different IA activities is not always associated to an increase of the value the IAF generates. A recent study (D'Onza et al., 2015) has not found any significant relationship between an increase in the number of activities the IAF performs and its ability to add value. Based on the premise that a diversified audit plan can help the IA to effectively respond to the variety of auditees' expectations, we formulate the fourth research hypothesis as follows:

Hypothesis 3: *There is a positive association between the number of activities the IAF performs and the IAF's ability to add value to the auditees*

2.4. The audit expertise

Prior studies highlighted that when line managers believe internal auditors do not have enough knowledge to provide useful recommendations, they do not take into account their advice, hence reducing the effectiveness of the IAF's work (Griffiths, 1999; Van Peursem, 2004). Global studies (Burnaby et al., 2007; Bayley, 2011) on the IA profession around the world highlighted that internal auditors should possess deep technical skills in addition to a broad range of non-technical skills to provide valuable services to their stakeholders. According to the IIA Internal Audit Competency Framework (IIARF, 2013), the technical competencies are an essential prerequisite that enables internal auditors to provide effective assurance and advisory services. As they have to apply a sophisticated blend of audit techniques and approaches, the possession of technical competencies represents a vital factor to effectively evaluate and improve the organization's corporate governance, risk management and internal control systems (Spencer Pickett, 2004). All these considerations lead us to the following research hypothesis:

Hypothesis 4: *There is a positive association between the audit expertise of the IAF and the IAF's ability to add value to the auditees*

2.5. IA as a management training ground

The use of the IAF as a management training ground is a practice quite widespread in Anglo-Saxon countries (Abbott et al., 2010; Christopher et al., 2009) which is expanding in many European countries too (Sarens, DeBeelde, 2006). This practice consists in using different types of rotational programs in which internal auditors positions are used as a training ground or a stepping stone for future managers to further their careers (Burton et al. 2015). Literature has widely debated about the positive and negative consequences of using this practice. Regarding the adverse effects, a primary concern refers to the impairment of internal auditors' objectivity because this practice creates a dependent relationship between the internal auditors and management who is considering them for promotion (Hoos et al., 2014) and, consequently, weakens the effectiveness of their monitoring tasks (Messier et al., 2011; Rose et al. 2013). Regarding the positive consequences, literature suggests the training of

"versatile, well-rounded" senior managers (Chadwick 1995, p. 63) as internal auditors by constantly rotating in different functional domains within the company develop interpersonal skills and organizational expertise. Christ et al. (2015) emphasize the increase of organizational expertise as a major benefit of this practice, as the systematic rotation in different organizational departments offer the internal auditors the possibility to gain specific knowledge about the operations and procedures that compose the core processes of the business. Moreover this study highlights that the use of the IAF as a MTG helps companies to attract and retain talents as well as to increase the motivation of IA staff. Up to now studies have not analyzed the consequences of this practice on the relationship between internal auditors and the auditees. Therefore we intend to test whether the use of the IAF as a MTG practice has consequences in terms of additional value to the auditee. Based on the findings of prior study highlighting the positive consequences of this practice, we hypothesize that the use the IAF as a MTG helps to improve the relationships with the auditees for several reasons. Thus we posit that:

Hypothesis 5: *There is a positive association between the use of the IAF as MTG and the IAF's ability to add value to the auditees*

2.6. Audit methodology

Audit methodology involves the approaches, procedures, tools and techniques the IAFs use to perform its activities. The use of appropriate audit methods helps the IAF to respond to the pressure raised by its stakeholders to reduce costs and increase the reliability and the quality of its services (Spira and Page, 2003). Other authors confirm this saying that the use of the appropriate audit methodologies enables an increase of the IAF's productivity, a reduction of the length of audit processes and an improvement of the accuracy of the work done (Dittenhofer, 2001). Prior empirical investigations on the adding value factors of the IA activities have found a positive relationship between the IA effectiveness and the adoption of audit techniques like the Computer Assisted Audit Techniques (Braun, Davis, 2003) and of the Control Risk Self-Assessment (Arena, Azzone, 2009). Moreover an international study (Allegrini et al., 2011) shows noticeable differences between industries, geographical regions, audit engagement types on the most effective auditing tools and techniques. The analysis of these studies denotes that there is not "one best" methodology which ensures the IAF adds value in all circumstances. Conversely the effectiveness of auditing activities depends on the ability of internal auditors to revise the audit methodologies in order to adapt them to the audit engagement goals and characteristics. In order to analyze whether the regularly revision of the audit methodology has a positive influence on the IAF's ability to deliver value added services to the auditees, we formulate the following research hypothesis as follows:

Hypothesis 6: *There is a positive association between the regularly revision of the audit methodology and the IAF's ability to add value to the auditees*

3. Methodology

3.1. Sampling and conduct of the survey

The data collection was based on a survey of 78 Italian Chief Audit Departments (CAEs). To collect the data we developed an online questionnaire which consists of three sections. The first one includes questions about the IAF's characteristics which might be associated with the IAF's ability to add value to its stakeholders. The second one encompasses questions measuring the perceptions of CAEs concerning the IAF's ability to add value to the auditees. The third one, which is not used in this study, analyzes the characteristics of the external and internal environment in which the IAF operates.

In order to develop the tool for the data collection correctly, the questions were previously discussed with three CAEs to understand how the respondents would interpret the questions. The questionnaire was then revised based on the comments received.

The IIA Italy sent the invitation to complete the online questionnaire in November 2014 to 550 CAEs who are member of the IIA in Italy. After the first contact, two reminders were sent to the selected population giving the CAEs the possibility to complete the questionnaire by the end of December 2014.

A total of 123 questionnaires were collected, with an overall response rate of 22,3%, but 45 were excluded because some questions had not been answered, leading to an actual response rate of 14% (78 usable questionnaires). The respondents' distribution, in terms of type of organizations, is presented in Table 1.

TABLE 1 – Number and percentage of respondents per type of organization

	Number	Percentage
Privately held non-listed	39	50
Publicly-traded listed	27	34,6
Public sector government	7	9
Not-for-profit non-government	3	3,8
Other	2	2,6
Total	78	100

3.2. Model specification and variables description

Given that the dependent variable is binary, we used logistic regression to test the hypotheses (Menard, 1995). Particularly we developed a logistic regression model to analyze the association between the IAF's ability to add value to the auditees and its IA characteristics outlined in Section 2. The following model is used to formalise the associations between the dependent and independent variables for testing purposes:

$$\text{ADDVALUEAUDT} = \alpha + \beta_1 \text{MAINSTK} + \beta_2 \text{INPUTSM} + \beta_3 \text{NUMACT} + \beta_4 \text{AUDEXP} + \beta_5 \text{IAMTG} + \beta_6 \text{REVMETH} + \varepsilon$$

3.2.1. Dependent variable

To examine the quality of the relationship between internal auditors and auditees we used a 6-items relationship scale. Table 2 reports the 6-items used in which the extreme are: "a minimum level of collaboration with auditees and management during the audit assignments" and "auditees consider internal auditors as their peers/partners". For each item we asked the CAEs to indicate their level of agreement or disagreement using the five-level Likert scale reported in Table 2.

Table 2 – Level of relationship between internal auditors and auditees (percentages)

	Strongly disagree	Disagree	Neither agree not disagree	Agree	Strongly agree	Total
There is a minimum level of collaboration with auditees and management during our audit assignments	1,4	11,3	15,5	52,1	19,7	100,0
Auditees are fully transparent towards the internal auditors	0	5,7	38,6	48,6	7,1	100,0
Auditees actively collaborate with the internal auditors	0	2,8	19,7	62,0	15,5	100,0
Auditees behave in a constructive way when confronted with the IA function	0	2,8	23,9	56,3	16,9	100,0
Auditees take IA findings and recommendations into account	0	2,8	8,5	73,2	15,5	100,0
Auditees consider internal auditors as their peers/partners	0	11,4	41,4	41,4	5,7	100,0

Overall the results indicate that CAEs perceive a positive relationship between the internal auditors and the auditees in their organizations as for the majority of respondents indicates they "Agree" or "Strongly Agree" for all proposed statements. Particularly the highest percentages regard: "Auditees take IA findings and recommendation into account" (88,7%), "Auditees actively collaborate with the internal auditors" (77,5%) and "Auditees behave in a constructive way when confronted with the IA function" (75,9%). The only statement with a percentage for the responses "Agree" or "Strongly Agree" which is slightly lower than 50% is "Auditees consider internal auditors as their peers/partners" (47,1%).

We used the principle component analysis (PCA) to analyze the possibility to reduce the six statements indicated in Table 2 in a small set of components. The results of the PCA show that five out of the six statements can be classified into one underlying component (Table 3). The pattern matrix obtained using the oblimin with Kayser normalization as criteria for component rotation indeed shows that for five statements the component loadings are above the critical value of 0.4 which is conventionally used as the threshold to identify the variables to be grouped in one component (Norman, Strainer, 2000).

Table 3- Results of Principle component analysis (Pattern Matrix)

	Component	
	1	2
Auditees are fully transparent towards the internal auditors	,839	-,020
Auditees behave in a constructive way when confronted with the IAF	,827	,036
Auditees actively collaborate with the internal auditors	,778	,068
Auditees consider internal auditors as their peers/partners	,769	-,132
Auditees take IA findings and recommendations into account	,609	,043
There is a minimum level of collaboration with auditees and management during our audit assignments	,007	,992

Based on the result of the PCA, we grouped the five correlated statements in one concept (component) called "the auditees behave in a transparent, collaborative, constructive and partnering way with the IAF". We use this concept to measure the value the IAF function generates to the auditees. Therefore we create the variable ADDVALUEAUDT which is the dependent variable used in our regression analysis. ADDVALUEAUDT takes a value equal to 1 when for all five correlated statements the respondents have indicate they "Agree" or "Strongly Agree" and 0 otherwise.

3.2.2. Independent variable

The independent variables and their measurements are described in Table 4.

Table 4: Description of the independent variables

Variable	Definition	Measurement
MAINSTK	Confusion about the main stakeholder	A variable which assumes a value from 1-5. Respondents were asked to use a 1-5 scale (totally disagree to totally agree) to indicate their agreement with the statement "There is confusion about who is the most important stakeholder of my IA function"
INPUTSM	IAF takes into account input of senior management in audit planning	A variable which assumes a value from 1-5. Respondents were asked to use a 1-5 scale (totally disagree to totally agree) to indicate their agreement with the statement "For our audit planning, we actively take into account the input from senior management"
NUMACT	Number of activities	A variable which assumes a value from 1-5. Respondents were asked to use a 1-5 scale (totally disagree to totally agree) to indicate their agreement with the statement "My IAF performs all types of audit activities (e.g. operational audits, financial audits, compliance audits, strategic audits, IT audits, etc.)"
AUDEXP	Internal auditors have business expertise	A variable which assumes a value from 1-5. Respondents were asked to use a 1-5 scale (totally disagree to totally agree) to indicate their agreement with the statement "The majority of my staff has an audit profile"
IAMTG	IAF as a management training ground	A variable which assumes a value from 1-5. Respondents were asked to use a 1-5 scale (strongly disagree to strongly agree) to indicate their agreement with the statement "My IAF is an important training ground for future managers"
REVMETH	Audit methodology regularly revised	A variable which assumes a value from 1-5. Respondents were asked to use a 1-5 scale (strongly disagree to strongly agree) to indicate their agreement with the statement "We regularly revise our audit methodology"
E	Error term	

4. Results

4.1. Descriptive results

Table 5 provides summarized statistics for the dependent (Panel A) and the independent variables (Panel B). Regarding the dependent variable (ADDVALUEAUDT), Table 5 shows that in 33% of the cases, the respondents indicate they "Agree" or "Strongly Agree" that internal auditors in their organization have established a transparent, constructive, collaborative, partnering relationship with the auditees who take IA findings and recommendations into account.

Considering the independent variables, a large majority of respondents indicates in their organization they do not perceive confusion regarding who is their most important stakeholder (MAINSTK). Indeed, only 11% of CAEs indicate they "Agree" or "Strongly Agree" with the statement "There is confusion about who is the most important stakeholder of my IA function".

The survey findings show that 86% of CAEs takes into account the input of senior management (INPUTSM) in the audit planning process. Consistent with the findings of prior studies (Burnaby et al., 2007; Alkafaji et al., 2011), this result highlights that the requests of senior management influence the development of the audit plans.

A large majority of CAEs (75%) indicates that their IAF performs all types of audit activities (NUMACT) including, for example, operational audits, financial audits, compliance audits, strategic audits, IT audits and so on. A possible interpretation of this result could be that the number of the stakeholders the IAF should satisfy in Italy has increased over the time. Particularly the changes in the national legislation have led to the setting up of a new control body called "Organismo di Vigilanza 231" added to the Audit Committee, the "Collegio Sindacale" and the Board of Directors (Allegrini, D'Onza, 2003) which require the IA function to perform specific (assurance) engagements for them. Therefore many IA functions perform a wide range of activities to meet the various needs of a large number of internal and external stakeholders.

Table 5: Descriptive results for dependent and independent variables

Panel A: Dependent variable						
		NO (equal to 0)		YES (equal to 1)		Total
ADDVALUEAUDT		67,6		32,4		100,0
Panel B: Independent variables						
		Disagree	Neither agree not disagree	Agree	Strongly agree	Total
MAINSTK	23,1	44,9	20,5	10,3	1,3	100,0
INPUTSM	0	8,0	5,3	68,0	18,7	100,0
NUMACT	1,3	7,7	15,4	50,0	25,6	100,0
AUDEXP	0	6,4	21,8	58,7	12,0	100,0
IAMTG	2,7	16,0	34,7	34,7	12,0	100,0
REVMTH	1,4	10,8	28,4	54,1	5,4	100,0

Most of the respondents (69%) indicate the majority of their staff has an audit expertise (AUDEXP). This result shows a similar picture of those emerging from studies on the internal auditing profession around the world (Alkafaji et al., 2011) indicating that the most prevailing professional experiences of internal auditors are in the fields of internal and external auditing.

Considering the use of the IAF as a training ground for future managers (IAMTG), almost 48% of CAEs indicate they "Agree" or "Strongly Agree" with this statement. This percentage is slightly lower than those found in other studies carried out in the U.S. (Abbott et al., 2010) and in Australia (Christopher et al., 2009) where more than 65% of organizations were actually using their IAF as a MTG. Therefore it seems that in Italy the practice of use the IAF as MTG in Italy is less common than it is in other countries. A possible explanation for this result could be found if we consider the age of existence of the IAF. Particularly, 50% of CAEs participating to this survey

indicates their IAF exists since less than 10 years. Therefore it is likely that young IAF has not yet achieved a level of maturity to be used as a MTG.

Almost 60% of the survey's respondents point out they regularly revise their audit methodology (REVMTH). Hence the majority of CAEs adopts a flexible approach in which the audit methods used to perform are adapted and tailored to the particular scope of the auditing activities in order to meet the specific requirements of the IA stakeholders. This seems the picture that emerges from the results of the correlation analysis (Table 6) indicating positive and significant correlations between the regularly revision of audit methodology (REVMTH) and the majority of audit assignments focused on consulting (CONSACT) and between the regularly revision of audit methodology (REVMTH) and the number of activities the IAF performs (NUMACT).

Table 6 presents the correlations between the independent (explanatory and control) variables in the regression model. The correlation matrix shows that there are several significant correlations between the explanatory variables and that the highest is between the use of the IAF as a training ground for future managers (IAMTG) and the majority of audit assignments focused on consulting (CONSACT), which has a coefficient of 0.252. These results support the view that multicollinearity does not seem a concern.

Table 6: Correlation matrix

	ADDVALUEAUDT	MAINSTK	INPUTSM	NUMACT	AUDEXP	IAMTG	REVMTH
ADDVALUEAUDT	1						
MAINSTK	-.231	1					
INPUTSM	.,329**	-,164	1				
NUMACT	-,112	-,051	.,199*	1			
AUDEXP	.,195	-.396**	.,180	.,198	1		
IAMTG	.,269*	.,103	.,160	.,044	.,120	1	
REVMTH	.,269*	-,071	.,116	.,224*	.,128	.,200*	1

* Pearson correlation is significant at the 0.1 level (two-tailed)

** Pearson correlation is significant at the 0.05 level (two-tailed)

4.2. Regression analysis

Table 7 reports the results of the logistic regression analysis, including all the explanatory and the control variables. We report the coefficient (β) of each independent variable as well as its related Wald statistic and significance. The last three rows provide the value of the number of valid cases, the χ^2 statistic and its pseudo R². The results show that the estimated model is highly significant ($p < .01$) with a pseudo R² of 44.2%, indicating that the independent variables explain a significant amount of variation in the dependent variable.

Table 7: Results of regression analysis

	B	Wald	Sig.
MAINSTK	-,569	1,566	.,211
INPUTSM	1,541	5,199	,023
NUMACT	-,707	3,815	,051
AUDEXP	.,264	.,294	.,588
IAMTG	.,891	5,803	,016
REVMTH	.,872	3,432	,064
COST	-10,451	6,539	.,011
Number of valid cases			71
Chi-square			28.524
			($p < .01$)
R ² Nagelkerke			44,2%

The results provide support for three of our seven hypotheses. Particularly, the variable input of senior management (INPUTSM) is significant ($p < .05$) and positively associated with the IAF's ability to add value to the auditees. These findings support H2, indicating that if CAEs take into account the requests of senior management in the audit planning process, this has a positive impact on the value that the IAF creates for the auditees. The findings also support H5, revealing that the use of the IAF as a MTG is significantly ($p < .05$) and positively associated with

internal auditors' ability to add value to the auditees. Therefore the possibility to create a constructive and collaborative relationship between the internal auditors and the auditees represents a positive consequence of the use of IAF as a MTG.

The results also provide support for H6, showing a significant ($p < .05$) and positive association between the regular revision of audit methodologies and the IAF's ability to add value to the auditee. This confirms our predictions that the changes of the audit methods have a positive relationship with the perception of the CAEs to add value to the auditees as this helps the IAF to customize its outputs to the expectations of the auditees.

The results of the regression analysis do not provide support to the remaining hypothesis (H1, H3 and H4). Regarding the number of activities the IAF performs (NUMACT), it's interesting noting that our study's findings show a significant ($p < .05$) and negative association with the IAF's ability to add value to the auditees. Even though the results are not consistent with our predictions, these findings offer the opportunity to develop considerations about the characteristics of a valuable IA strategy which are reported in the next Section.

5. Discussion and conclusions

This study examines the factors influencing the perception of internal auditors to add value to the auditees, using data collected from Italian companies. More specifically, we examine whether the perceptions of the CAEs to establish transparent, collaborative, constructive and partnering relationship with the auditees are associated with certain IA characteristics drawn from the extant literature.

Overall more than two third of CAEs participating to this survey perceive a positive relationship with the auditees. Moreover almost 50% indicate that in their organization the auditees consider internal auditors as their peers/partners.

The results of our study show a positive and significant relationship between the IAF's ability to add value to the auditee and: the incorporation in the audit planning of the inputs received from senior management; the use of the IAF as a MTG and the regular revision of audit methodology.

Regarding the first adding value factor, the findings confirm our initial premise that when the IAF takes into account the input from senior management, the IAF becomes more effective in managing their relationship with the auditees. The analysis of senior management expectations helps at the macro level the CAE to understand which activities the C-suite consider the most valuable for them supporting the alignment between the audit plan and the organization's strategic plans. Our results point out that the IAF obtains benefits also at a micro level as during an audit engagement the input from senior management helps internal auditors to focus more on those risks and controls that are considered the most critical for the achievement of business objectives. This can increase the appreciation and the satisfaction for the IAF's work which is important to allow for internal audit findings and recommendations to be accepted and implemented by the auditees. The incorporation of SM expectations both at macro and micro level can enhance the ability of internal auditors "to walk in the shoes" of managers and facilitate the empathy with the auditees helping the establishment of transparent, collaborative and constructive relationships. However, the alignment between the expectations of the senior management and the IAF does not mean that the audit is effective if the expectations of the senior management are low (Lenz, 2012). In this way, the input of the senior management could diminish the ability of the IAF to add value to the auditees.

Consistently with our predictions, the use of the IAF as a MTG is positively associated with the IAF's ability to add value to the auditees. Our study provides an empirical support to the arguments regarding the positive effects that this practice produces in terms of IAF effectiveness. Particularly, internal auditors rotating in different

organizational areas have greater possibility to increase their knowledge of organization's processes and risks and their level of business acumen. Many commentators consider these factors as crucial for the IAF's ability to add value to senior and operating managers (Christ et al., 2015; IIA, 2013; Chambers, 2013). When internal auditors demonstrate a high level of expertise on the topic under discussion it is more likely that the auditee becomes collaborative and constructive for utilitarian reason as they can rely on the IAF's work to identify problems and find accurate solutions. Moreover a high level of expertise can reduce the reticence and opportunistic behaviors of auditees enhancing a transparent and opened dialogue.

Furthermore the use of the IAF as a MTG could also increase the motivation of internal auditors to operate effectively in order to satisfy the expectations of the auditees and of their superiors. In this way they might foster their personal reputation into the organization which can facilitate their promotion into managerial positions in other functional departments.

When analyzing the potentiality of the IAF as a MTG to add value to the auditees, we believe practitioners should also be aware of the risks this practice produces. As widely debated in literature, the use of this practice could impair the internal auditor's objectivity (Hoos et al., 2014) because internal auditors might indeed avoid taking position against the auditees especially when they perceive they are dependent on them for future career moves.

The findings regarding audit methodologies support our premise that the regular revision of audit methods might help the IAF's ability to add value to the auditees. This result provides an empirical support to the view existing in literature: the more the IAF is flexible in the methods used to perform the audit engagement, the more it can adapt its outputs to the auditee's needs and, consequently, increase their degree of satisfaction.

Finally, the negative association between the number of IA activities and the IAF's ability to add value to the auditees suggest some reflections about the approach followed in the setting up of a valuable IA strategy. These results seem to indicate that the adoption of a strategic approach which aims to expand the types and number of IA activities aiming to satisfy the greater number of stakeholders could not be the right direction to add value. The strategy of diversification in certain conditions could produce low quality outputs that do not meet the IA stakeholders' expectations rising doubts about the ability of the IAF to provide valuable services. Thus, a value-added approach implies that CAEs should ask themselves whether the IAF possess the adequate resources, skills and competencies to sustain a diversification strategy and proceed accordingly.

When interpreting the findings of this study, a number of limitations need to be taken into account. First and consistent with general trends in questionnaire-based research, the limited number of respondents could be an impediment to generalization of the results, thereby necessitating careful interpretation of our findings. Second, this study is only based on the perception of CAE working in the Italian context and the specific characteristics of the Italian settings (e.g. a large presence of family owned companies) might influence the empirical findings. Third, like all studies which analyze the value added by the IAF from the supply-side perspective, the measures of the IAF's ability to add value to the auditees only reflect the perspective of those providing internal auditing services. Fourth, like many perceptual studies, the CAE' perceptions may deviate from the realities of practice, or be influenced by "overly optimistic self-assessments by internal auditors" (Lenz & Sarens, 2012, p. 537). Finally, this study may not have examined all possible factors that influence IAF's ability to add value to the auditees.

In turn, these limitations provide the basis for our suggestions regarding future research areas. Researchers can expand the number of IAF characteristics to identify their potential impact on the value that IAFs adds to the auditees. To this purpose, the increasing literature on the value added of the IAF might help research to identify further potential value drivers to test empirically. Moreover they can further explore the value drives emerging from this study. For example, the effect of using the IAF as MTG on the relationship between internal auditors and the auditee is a promising avenue for future studies considering that this practice is expanding in many countries. For example, future studies might investigate under which conditions the use of the IAF as MTG can increase the competencies required to an internal auditors to be able to effectively support the auditees.

Future studies might also consider the perspective of the auditees in order to see whether the IAF characteristics which they perceive as value adding factors coincide or diverge with those identifies in this study. In addition,

further research on the factors enhancing the IA's value proposition for auditees may be undertaken in other countries to identify whether the findings of this study are a worldwide phenomenon or a localized issue.

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