

# The adequacy, use and compliance with internal auditing standards – South African perceptions in comparison with other specific regions

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## ABSTRACT

This article focusses on determining the adequacy of the International Standards for the Professional Practice of Internal Auditing (*Standards*) for use in South Africa, as well as examining how local entities comply with the *Standards* as compared to those in other specific regions, from both emerging economies and developed economies. Data used in this article's analysis, interpretation, and comparisons comes from the USA-based Institute of Internal Auditors Research Foundation's Common Body of Knowledge questionnaire respondents database. Findings indicated that the *Standards* provide adequate guidance to internal auditors, with South African respondents providing the highest rating. South African respondents also indicated that their organisations have the highest rate of compliance with the *Standards*, compared to those of other specific regions. Reasons for and theories explaining the non-compliance with the *Standards* are discussed. The findings of the study can be valuable to internal auditors in other emerging economies (as they shed light on possible reasons for non-compliance with the *Standards*), as well as for internal audit researchers as a basis for further research.

## Key words

CBOK 2010; Internal Audit Standards; International Professional Practices Framework; standard setting; professional standards

## Acronyms

CBOK	Common Body of Knowledge	IARF	Institute of Internal Auditors Research Foundation
CAE	Chief Audit Executive	IPPF	International Professional Practices Framework
IAA	Internal Audit Activity	SA	South Africa
IASB	Internal Auditing Standards Board	UK	United Kingdom
IIA	The Institute of Internal Auditors		
IIA (SA)	The Institute of Internal Auditors (South Africa)		

## 1 INTRODUCTION

The standardisation of practices and systems amongst trading partners, within regions and between

countries of the world, is the logical result of increased international trade. The sustainability of this trade requires the analysis of the financial and governance health of prospective customers,

business partners and suppliers. It is therefore important for management to know that they can rely on the information provided by business stakeholders because they have used standard practices and systems. Similarly, it is important for the internal audit profession internationally to apply globally recognised standard practices.

The internal audit profession's value is increasingly being recognised by governments and companies around the world. Indicative of this recognition of value, the internal audit profession grew in membership between the years 2003 and 2006 from 82 600 to 127 700 members, a 55% increase (Marais *et al.* 2009). Due to this continued growth a strong and globally unified internal audit profession is needed and the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (hereafter referred to as *Standards*) provides a standard framework for all internal auditors to perform their work. To support a united profession, fully complying with a single set of *Standards*, the Common Body of Knowledge (CBOK) studies, funded by the Institute of Internal Auditors Research Foundation (IIARF), are part of an on-going research programme to document how internal auditing is practiced (IIARF 2007).

This article is one of a series of articles that used the data from the CBOK 2010 and CBOK 2006 surveys to do a comparison between South Africa and selected regions from the rest of the globe. This article focuses on only three areas: determining the adequacy of the *Standards* for use in South Africa; compliance with and use of the *Standards* by South African entities, and a comparison of usage practices between South Africa and selected other regions globally.

## 2 REVIEW OF LITERATURE ON SETTING PROFESSIONAL STANDARDS

As a basis for the analysis of the CBOK 2010 data a review of the literature on the setting of professional standards and the standard-setting process in general was conducted. Thereafter the revision process of the *Standards* is discussed.

### 2.1 The purpose of setting standards for a profession

The purpose of setting standards is by definition to create a social order by reducing freedom of behaviour (Brunsson & Jacobsson 2000). In this regard, professional standards define the ethical and legal duties of a professional to exercise the level of care, diligence and skill prescribed in the code of practice of his/her profession, or as other professionals in the same discipline would do in similar circumstances (Business dictionary 2012). The purpose of the IIA *Standards* does not deviate from the above views in that it delineates basic principles for the practice of internal auditing, provides a framework for performing and promoting internal auditing, and sets out the basis for measurable performance outcomes, skills, knowledge and the understanding required to perform competently in the workplace (IIA 2011).

As a result, the *Standards* that have been developed and that are continuously maintained by the IIA are essential for defining the responsibilities and activities of internal auditors today. If the *Standards* were embraced and endorsed by all the members of the profession, the data extracted from the CBOK 2010 survey database on the adequacy and use of, and compliance with the *Standards* would be irrelevant. However, CBOK 2006 data indicated that not all internal audit activities (IAAs) across the globe comply with the *Standards* (Cheney 2007), which indicates the need for research regarding the adequacy, compliance and use of the *Standards*.

Any profession needs to consider that, in the process of standard-setting, an attempt to enforce a particular code of conduct will inevitably result in resistance from those who did not have adequate influence over the setting of those standards (Jeppesen 2010). The IIA is acutely aware that a dialectical process should be followed, and all *Standards* are first provided to the profession as exposure drafts for discussion and feedback, after which every comment received is carefully reviewed and where deemed appropriate, revisions are adopted (IIA 2001). The following section will discuss the IIA standard-setting process and the expansion of influence.

### 2.2 The development and promotion of the International Professional Practices Framework (*Standards*)

Within the organisational structure of the IIA, the Internal Auditing Standards Board (IASB) is responsible for the development and issuance of the *Standards* (Fraser 2005). In addition to the IASB, the IIA standard-setting process includes the active involvement of four other IIA international committees – on technology, quality, ethics and professionalism. In 2010, the IIA also announced the formation of the International Professional Practices Framework (IPPF) Oversight Council, with representatives from various reputable international standard-setting and finance institutions. This oversight body was formed in response to stakeholders' demands that standard setters be subject to oversight. As a result the oversight body will evaluate and advise the IIA on the rigour of the IIA's standard-setting process and thus provide on-going assurance that the *Standards* are of the highest calibre and are properly responsive to the public interest (Targeted News Service 2010).

Apart from adequate oversight mechanisms and the inclusiveness factor mentioned above, a primary factor that may influence compliance with the *Standards*, after the standard-setting process is complete, is a legal requirement to comply in individual countries. The IASB accepted that in the absence of any national legal requirement to comply with the *Standards*, the only way to promote compliance is by reinforcing the benefits or value of compliance (Fraser 2005). Promoting the benefits of compliance may, amongst others, be achieved by establishing IIA affiliated professional institutes and "chapters" (sub-division of an affiliated institute) to communicate and implement the *Standards* worldwide, whilst simultaneously advocating for laws

to define and regulate the role of internal auditing in private business and state enterprises.

In 2012 the IIA had 119 countries listed on their internet website ([www.theiia.org](http://www.theiia.org)) as having an IIA chapter or affiliated institute. The authors are of the opinion that the age of the IIA chapters may have an influence on the use of and compliance with *Standards* and as a result included background on the dates of incorporation of a number of countries as basis for the interpretation of data later in this article.

After the establishment of the IIA in the USA in 1941 (Jackson 2011), the first IIA chapter was established in Canada in 1944, followed by England (Nicholson 2012) and the Philippines in 1948, the Scandinavian countries in 1951 and Australia in 1952 (Forster & Brady 2002). Brazil and Argentina (1960) were the first Latin American States to join, and Guatemala was the latest, in 2005 (Burnaby & Hass 2011:738). A survey of the African chapters' internet webpages indicates that Africa has provided recent to very recent additions: South Africa (1985), Zimbabwe (1988), Zambia (1998), Ghana (2001), Cameroon (2001), Kenya (2002) and Botswana (2008), to name but a few.

The findings of the CBOK surveys may be indicative of how well the internal audit profession is conducting its process of standard-setting and how effectively it is expanding its influence. The surveys should also provide insight into the reasons for non-compliance from which it should be possible to inform the IASB of the factors that may require a new or revised *Standard* or, more dramatically, a revision of the standard-setting process.

### 2.3 Reviewing the International Professional Practices Framework (*Standards*)

The IIA's first professional guidance was the "Statement of Responsibilities of the Internal Auditor", issued in 1947 (Ramamoorti 2003). After a number of revisions to this Statement of Responsibilities, the first *Standards* were formally approved by the IIA in 1978 (Sawyer *et al* 1996). In 1999 the adoption of the current definition of internal auditing necessitated a major review of the *Standards*, and also the replacement of the 1947 Statement of Responsibilities (Anderson & Dahle 2009). The new definition highlighted the wider responsibilities of internal auditing as a value-adding function within an organisation and not only an assurance function (Coetzee & Du Bruyn 2001).

Against this backdrop the importance and visibility of the IAA was growing, improved internal audit practices were being developed at an increasingly rapid pace (Shain & Gregory 2003), and professional guidance had to conform. The revised *Standards* that became effective on 1 January 2002 (Sadler, Marais & Fourie 2008) took a more strategic view of the IAA in an organisation by clearly distinguishing assurance activities from other activities (Coetzee & Du Bruyn 2001). Changes to the *Standards*, which added consulting (non-assurance) standards, became effective on 1 January 2004. This was confirmed by

Lily Bi from the IIA in the USA (electronic communication: 20 February 2012).

It was clear to the IIA that the rapid evolution of the internal audit profession required an increasingly sophisticated accepted body of knowledge in order for internal auditors to perform their jobs more effectively and sooner after leaving training facilities (Hass *et al* 2006). As a result, the IIA commissioned the CBOK studies of which CBOK 2006 was the first global membership study (Sadler *et al* 2008). It is probable that the CBOK 2006 and 2010 surveys were to some degree contributory to the comprehensive reviews and final revision of the *Standards* that were released by the IASB in 2009 and 2011.

The research design and methods employed in this article follow.

### 3 RESEARCH DESIGN AND METHODS

To obtain the perceptions of internal auditors the IIA used internet web-based research instruments in both the CBOK 2006 and CBOK 2010 surveys so that its global membership and key non-members could access the survey. In this special edition all the articles make use of the CBOK 2010 survey data and the IIA CBOK database in general, as a secondary data source. Finally, where applicable, reference has also been made to the CBOK 2006 survey data. The research method used to provide data for these articles was a comparative analysis of the findings gathered from South African respondents and from participants from Africa and other specific regions. The data and its analysis were sourced primarily from the CBOK database.

The regions used in the study were the same as the regions used in the IIA South Africa report on the Global Internal Audit Survey: A component of the CBOK study. Due to the similarities of the governance environment and legal systems, the only country from the Asian Pacific region used in the regional comparisons was Australia. In Asia, China is a major economy, however its governance requirements and legal systems are vastly different from those used in South Africa. The different contexts that apply to the countries could by itself negate the value of any such comparison. However, the authors are well aware that comparing South Africa to individual countries included in the global region may render a different perspective on the results.

The CBOK 2010 survey contains 13 577 responses from IIA members and non-members in 107 countries. The main analysis in this article is based on responses to the IIA's CBOK 2010 questionnaire from 73 South African CAEs and service partners who had previously participated in the CBOK 2006 study. The breakdown of CAE and service partner respondents by specific region is: Rest of Africa (excluding South Africa) – 72; Ireland and the United Kingdom (UK) – 117; Australia – 79; North America – 770. The South African period of affiliation to the IIA was also compared against the respective regions' periods of affiliation, in an attempt to understand the seeming anomalies in the results (IIA (SA) 2012).

#### 4 ANALYSIS AND INTERPRETATION OF CBOK

Respondents provided their views on the adequacy of guidance provided by the *Standards*, the use of the *Standards*, and the compliance of their IAAs with the *Standards*.

##### 4.1 Adequacy of Standards

The responses from South Africa in both the CBOK 2006 and CBOK 2010 surveys are presented in Table 1. They responded to the following request: If your IAA follows any of the *Standards*, please indicate if the guidance provided by these *Standards* is adequate.

From Table 1, the South African respondents in both the CBOK 2006 and CBOK 2010 surveys perceived the *Standards* as providing a high degree of adequate guidance. It is noticed that the respondents gave a higher rating for the adequacy of the *Standards* in the CBOK 2010 survey than they did in the CBOK 2006 survey. This finding may be indicative of the success of the *Standards* revision after the CBOK 2006 survey. It also appears to confirm that the IIA is on the right track with its on-going research and the updating of its database in response to the perceptions of its members on current issues.

**Table 1: Adequacy of Standards as perceived by South African respondents**

Standard	2010	2006
AS 1000 Purpose, Authority, and Responsibility	98.25%	92.13%
AS 1100 Independence and Objectivity	94.74%	93.16%
AS 1200 Proficiency and Due Professional Care	98.25%	91.24%
AS 1300 Quality Assurance and Improvement	94.64%	82.76%
PS 2000 Managing the Internal Audit Activity	100.00%	87.11%
PS 2100 Nature of Work	91.23%	85.51%
PS 2200 Engagement Planning	98.21%	88.76%
PS 2300 Performing the Engagement	94.64%	87.28%
PS 2400 Communicating Results	96.49%	91.07%
PS 2500 Monitoring Progress	96.49%	86.21%
PS 2600 Resolution of Management's Acceptance of Risks	87.72%	82.71%

(IIA (SA) 2012)

Table 2 lists the degree of adequacy of guidance obtained from the *Standards* as perceived by respondents to CBOK 2010, broken down by specific region as explained in section 3 of this article.

From the high ratings indicated in Table 2 it is evident that all the respondents were of the opinion that the *Standards* provided adequate guidance. South Africa and the Rest of Africa presented the highest average rating on the adequacy of the guidance in the *Standards*, whereas the UK and Ireland had the

lowest average at 89.41%, followed by Australia (92.14%) and Global (92.72%). Even though the adequacy rating of the *Standards* is very high in all the regions it should be observed that the older, more established chapters or affiliates to the IIA gave the *Standards* lower ratings than the regions with recently established chapters (refer to literature review: section 2.2). Considering this observation may provide additional insight into the interpretation of the analysis of the use of, and compliance with the *Standards*.

**Table 2: Adequacy of the Standards by region**

Region	South Africa	Global	Africa excl SA	UK & Ireland	Australia	North America	Average
PS 2000: Managing the internal audit activity	100%	94.34%	96.00%	87.34%	93.44%	96.16%	<b>94.55%</b>
AS 1200: Proficiency and due professional care	98.25%	96.58%	93.88%	95.00%	96.72%	98.52%	<b>96.49%</b>
AS 1000: Purpose, authority and responsibility	98.25%	97.08%	96.00%	93.83%	96.88%	98.36%	<b>96.73%</b>
PS 2200: Engagement planning	98.21%	93.54%	93.75%	92.50%	92.06%	96.52%	<b>94.43</b>
PS 2500: Monitoring progress	96.49%	92.91%	95.83%	91.14%	88.71%	94.65%	<b>93.29%</b>
PS 2400: Communicating results	96.49%	95.51%	97.96%	87.50%	93.65%	96.68%	<b>94.63%</b>
AS 1100: Independence and objectivity	94.74%	97.58%	95.92%	93.83%	98.44%	98.18%	<b>96.45%</b>
PS 2300: Performing the engagement	94.64%	93.49%	95.65%	91.14%	91.94%	96.51%	<b>93.76%</b>
AS 1300: Quality assessment and improvement	94.64%	83.06%	84.78%	83.95%	84.13%	85.97%	<b>86.09%</b>
PS 2100: Nature of work	91.23%	92.21%	93.48%	88.61%	90.48%	94.31%	<b>91.72%</b>
PS 2600: Resolution of management's acceptance of risk	87.72%	83.72%	74.47%	78.75%	87.10%	91.11%	<b>83.81%</b>
<b>Average</b>	<b>95.51%</b>	<b>92.72%</b>	<b>95.52%</b>	<b>89.41%</b>	<b>92.14%</b>	<b>95.18%</b>	

(IIA (SA) 2012)

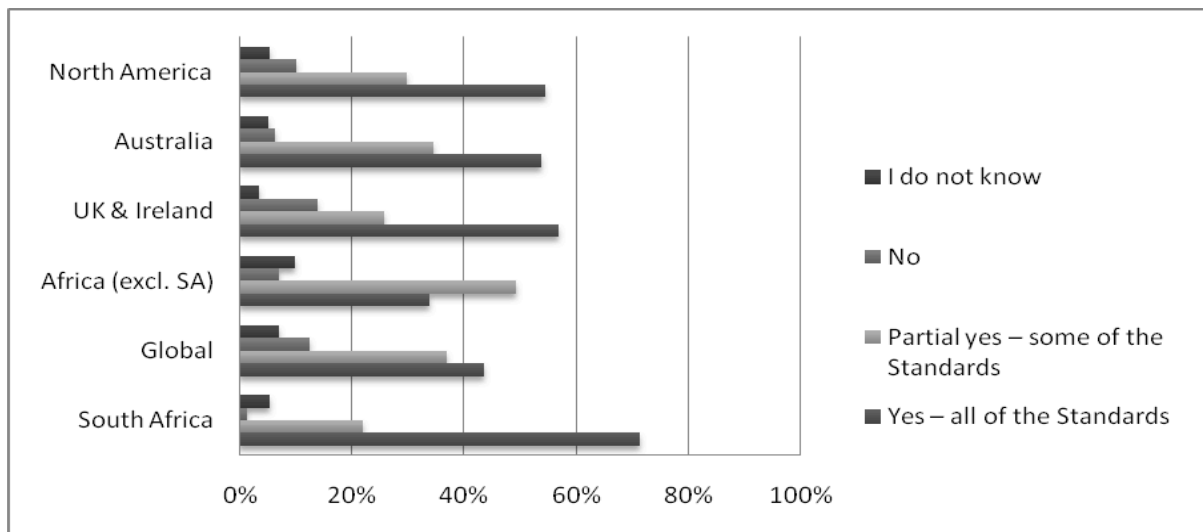
4.2 The use of Standards

Figure 1 summarises the responses to the CBOK 2010 survey from the specific regions that are the focus of this article. The question was: Does your organisation use International Standards for the Professional Practice in Internal Auditing (Standards)?

According to the results illustrated in Figure 1 more than 70% of South African respondents (71.23%) indicated that they used all the Standards, while 21.92% indicated that they use some of the Standards. Only a small percentage (6.85%) of these respondents indicated that they did not use or were

unsure whether all the Standards were used by their IAAs. From Figure 1 it appears that the use of the Standards in the other regions was not as widespread as in South Africa. Only 43.61% of Global respondents indicated they used all the Standards, while between 33.80% and 56.90% of respondents from the other specific regions being studied used all Standards. The UK and Ireland is the region with the highest percentage of respondents not using the Standards and yet it is one of the longest-affiliated IIA regions (since 1948). This non-use of the Standards is consistent with the region's responding with the lowest average rating on the adequacy of the Standards. This finding will be viewed more critically in the conclusion section of this article.

Figure 1: Use of Standards by regions



(IIA (SA) 2012)

From Table 2, the rating of the adequacy of the Standards is significantly higher than the ratings received on the full use of the Standards in Figure 1. In other words, the acceptance of the idea of the Standards was significantly easier to achieve than their adoption and implementation. A possible explanation may be that respondents find Standards adequate but due to specific local reasons cannot use these Standards within their working environments. Understanding these reasons is paramount to the IIA's standard-setting process as well as the continued professional development requirements. As a result, the reasons for not using the Standards in South Africa, extracted from the CBOK 2010 data, will be illustrated in Figure 2 and compared to responses from other specific regions in the discussion. The South African respondents responded to the following request: What are the reasons for not using the Standards in whole or in part?

The primary reason, according to South African respondents to CBOK 2010, for not using the Standards was an inadequate IAA staff complement. This may be an indication of a shortage of competent and/or qualified internal auditors in South Africa. The Global respondents to the CBOK 2010 survey perceived this to be the second most important reason for not using the Standards, with the use of

the Standards not being appropriate for small organisations being the most important. South African respondents chose insufficient support for compliance from management or the board as the second most important reason for not using the Standards. Four of the five top reasons for not using the Standards were the same for both the South African and the Global respondents, although the order of precedence varied.

What is interesting to observe from the analysis is that two of the reasons for not using all of the Standards are because the management or board does not support compliance, or are of the opinion that adopting the Standards will not add value. In the authors' opinion the high ranking of these two reasons may well be due to the other reasons mentioned: If using a Standard is too time consuming or costly or complex and management is aware that its IAA is understaffed or is lacking in technical skills, they will not support the use of a Standard. If a Standard is too complex, or deemed not appropriate for the organisation due to its size or the lack of applicability for that industry, management may feel that no value is added by adopting that Standard. The same argument applies globally, where the primary reason for non-compliance is 'not appropriate for small organisations', which may be as a direct result

of cost or complexity factors. As a result, the authors are of the opinion that many of the main reasons stated are interrelated and should not be viewed in isolation. This interrelationship should be considered

by the IIA in setting the questions for any future CBOK study, to ensure that meaningful information is acquired.

**Figure 2: Reason for not using the Standards in whole or in part for South Africa**



(IIA (SA) 2012)

Considering the age of the IIA chapter in a region, it is noted that the highest ranking for the use of the Standards is by the respondents from the relatively younger chapters such as the South African chapter (refer to section 2.2), whereas respondents from older chapters indicated a significantly lower use. The Rest of Africa region is an exception to this observation, although, the lower ranking for the use of the Standards by the Rest of Africa region may be attributable to other factors and influences. According to Veronica du Preez (personal conversation 27 March 2012), who gained substantial experience with the establishment of IIA chapters in the rest of Africa, the focus of these IAAs is mainly financial compliance auditing due to a pervading traditional view on auditing, although pockets of excellence do exist. Looking for other factors hampering emerging

economies in general from adopting the Standards one must consider capacity and cost as major contributors. Nevertheless, the Rest of Africa showed perceptions similar to South Africa's in respect of the use of the Standards when compared to the regions with older chapters, and these include developed economies. The poor adoption rate by the older IIA chapters from developed economies is alarming as they should, certainly in terms of affordability and staffing, be in the best position to use all the Standards.

**4.3 Compliance with the Standards**

Table 3 summarises by region the CBOK 2010 survey responses to the question: Is your organisation in full compliance with the Standards?

**Table 3: Standards – overall compliance per region**

Region	South Africa	Global	Africa (excl. SA)	UK & Ireland	Australia	North America	Average
No	41.10%	52.22%	57.75%	42.48%	53.85%	50.20%	49.60%
Yes	58.90%	47.78%	42.25%	57.52%	46.15%	49.80%	50.40%

(IIA (SA) 2012)

As indicated in Table 3, South African respondents have the highest perception of full compliance with the Standards, against an average for the other specific regions, where only half of all organisations believe they fully comply with the Standards.

Table 4 summarises South African responses in both the CBOK 2006 and 2010 surveys where respondents answered the following question: Is your organisation in full compliance with the Standards?

Table 4 indicates an often dramatic increase in the perceived degree of full compliance for specific standards between the CBOK 2010 and CBOK 2006 survey responses. The specific standard that had the lowest increase in full compliance was AS1300: Quality assurance and improvement, which was also ranked the lowest in compliance in both 2006 and 2010. PS2600: Resolution of management's acceptance of risk was in the second-to-last place, both in the increase in compliance from the 2006 to 2010 as well

as in ranking. This agrees with the views of international respondents. All other specific standards were perceived to be between 60% and 85% of full compliance by South African respondents, and between 60% and 80% of full compliance by international respondents. However, it is concerning that in the specific standard that forms the foundation of the internal audit profession (AS1100 – independence of the IAA and objectivity of internal audit staff), the respondents only indicated an 81.54%

perceived compliance rating, while only 84.62% perceived there to be compliance with AS1000, the *Standard* addressing the purpose of the IAA and the authority and responsibility delegated to the internal auditors. Yet, the adequacy rating for these Standards was very high (94.74% and 98.25% respectively). The reasons for this “implementation gap” phenomenon should be investigated in further research.

**Table 4: Compliance per standard for South Africa**

Standard	2010	2006
AS 1000 Purpose, Authority, and Responsibility	84.62%	61.98%
AS 1100 Independence and Objectivity	81.54%	66.02%
AS 1200 Proficiency and Due Professional Care	75.00%	61.84%
AS 1300 Quality Assurance and Improvement	44.62%	41.01%
PS 2000 Managing the Internal Audit Activity	75.38%	57.34%
PS 2100 Nature of Work	73.85%	56.77%
PS 2200 Engagement Planning	81.54%	59.15%
PS 2300 Performing the Engagement	80.00%	63.74%
PS 2400 Communicating Results	83.08%	70.34%
PS 2500 Monitoring Progress	66.15%	51.99%
PS 2600 Resolution of Management's Acceptance of Risks	58.46%	50.42%

(IIA (SA) 2012)

Table 5 summarises the responses from all regions to the CBOK 2010 survey question: Is your organisation in full compliance with the *Standards*?

Respondents from SA, UK and Ireland, Australia, and North America on average perceived a higher degree of compliance with the *Standards* to have been achieved than the Global and Rest of Africa respondents. South African respondents perceived that for eight out of the eleven listed specific standards more than 70% had achieved full compliance. The UK and Ireland respondents also perceived an above 70% compliance for nine of the eleven specific standards, as did Australia, while North American respondents claimed above 70%

compliance in ten standards. Respondents from the Rest of Africa and Global respondents perceived an achievement of substantially lower levels of full compliance with the *Standards* by their IAAs. The Global respondents perceived compliance of greater than 70% in only four *Standards*, while respondents from the Rest of Africa did not perceive that they had achieved a high rating for any of the specific standards, the 62% claiming compliance for AS 1100: *Independence and objectivity* being the highest. The interpretation from the analysis of the results regarding the adequacy, use and compliance with the *Standards* will be discussed next, and conclusions drawn.

**Table 5 Standards compliance per standard by region**

Region	South Africa	Global	Africa excl. SA	UK & Ireland	Australia	North America	Average
AS 1000: Purpose, authority and responsibility	84.62%	74.97%	57.41%	83.33%	79.31%	86.84%	<b>77.75%</b>
PS 2400: Communicating results	83.08%	73.22%	58.49%	80.68%	79.31%	85.08%	<b>76.66%</b>
PS 2200: Engagement planning	81.54%	66.41%	58.33%	71.59%	77.19%	78.93%	<b>72.33%</b>
AS 1100: Independence and objectivity	81.54%	78.25%	62.96%	87.36%	83.05%	88.89%	<b>80.34%</b>
PS 2300: Performing the engagement	80.00%	67.92%	58.82%	77.01%	74.14%	80.93%	<b>73.14%</b>
PS 2000: Managing the internal audit activity	75.38%	67.92%	51.85%	75.86%	77.59%	80.17%	<b>71.46%</b>
AS 1200: Proficiency and due professional care	75.00%	73.03%	55.77%	82.56%	74.14%	85.57%	<b>74.35%</b>
PS 2100: Nature of work	73.85%	66.29%	50.98%	72.73%	72.41%	79.48%	<b>69.29%</b>
PS 2500: Monitoring progress	66.15%	63.56%	50.94%	76.14%	74.14%	74.32%	<b>67.54%</b>
PS 2600: Resolution of management's acceptance of risk	58.46%	53.29%	31.37%	65.52%	63.79%	72.74%	<b>57.53%</b>
AS 1300: Quality assessment and improvement	44.62%	38.36%	29.41%	54.02%	49.15%	43.37%	<b>43.15%</b>
<b>Average</b>	<b>73.11%</b>	<b>65.75%</b>	<b>51.48%</b>	<b>75.16%</b>	<b>73.11%</b>	<b>77.85%</b>	

(IIA (SA) 2012)

## 5 CONCLUSION

In an attempt to find a logical interpretation of the findings from the analysis of the data on the adequacy, use and compliance with the *Standards*, the authors investigated the idea that regions or countries with an internal audit chapter that pre-dated the issuing of the first *Standards* in 1978 would have a tendency *not* to comply with or not to use all the *Standards*, since they had well established practices already in place and deemed them sufficient, thus resulting in a possible resistance to adopt new *Standards* and practices. (As an aside, internal auditing operates in a fast-changing business environment so a resistance to change can lead to inappropriate practices with little value being added by internal auditors.) Continuing the idea that age influences compliance, more recent members of the IIA, such as SA, should more readily use and comply with new *Standards*, since its internal audit profession has been established and has developed under the guidance of the IIA and its *Standards*. Marais *et al.* (2009) share this opinion, that the *Standards* give structure and support to young IAAs and internal auditors.

However, the age theory proved inconclusive since, although South Africa responded with the highest perception scores of adequacy, use and compliance, the Rest of Africa, where the most recent IIA chapters have been established, responded with the lowest perception in both the use and compliance categories. There may, however, be other factors that need to be considered together with the age theory. Based on responses to the offered reasons for not using the *Standards*, the developed economies (representing mostly the regions with the oldest IIA chapters) should have been in the best position to use and comply with the *Standards*, and for the same reason the least developed economies that include the Rest of Africa region should not have been in a good position. Yet, the data indicates that the perceived compliance rating of the Rest of Africa region is relatively close to that of the more established and developed regions. As a result the authors are of the opinion that whereas the pre- and post- 1978 age theory may still prove to have substance, it needs a more in-depth investigation as part of further research.

Even though inconclusive, what should concern the IIA from the above discussion is the disconnect between statements made by Jacka (2005) that the *Standards* are the foundation of what internal auditors do, and without it the profession may fall into chaos, and by Dogas (2011) that compliance with a standard conduct is essential for a profession to create the impression of effectiveness, instil credibility and to gain the respect of stakeholders. This can be threatened by the acknowledgement of the regions with the longest periods of IIA membership, that essentially they comply with the *Standards* where and if it suits them.

Investigating this situation would hopefully identify some of the reasons and motivations for the gaps between theory and the implementation of the

*Standards* in an already sophisticated and quality-driven IIA standard-setting process on the one hand, and the real world practice of internal auditing on the other. Once identified, it should be easier to address the issues in future editions of the *Standards* or continued professional development areas.

From the CBOK 2010 survey, non-compliance is blamed on the perception (or fact) that some *Standards* place too much pressure on the capacity of individual IAAs. The question that then arises is, why did this not become apparent during the standard-setting process? An obvious reason suggests itself: Some *Standards* work better on paper than in practice, and even though a thorough scrutiny and comment period is routinely afforded, only with attempts to implement the *Standards* in the real world workplace does the true extent of the challenge become apparent. A possible solution to the theory/real world incompatibility issue would be to commission individual organisations of various sizes, across different industries and cultures, to exhaustively test the proposed new standards before a *Standard* is approved for global implementation.

A further aspect that the IIA needs to consider is that, as long as compliance with the *Standards* is not mandatory (legislated) in a particular country, it is inevitable that there will not be full compliance. The regulatory environment in South Africa supports compliance with the *Standards* as it is required by the Public Finance Management Act (Act 29 of 1999) and the Municipal Finance Management Act (Act 56 of 2003), and it has been recommended as a good corporate governance practice by the Institute of Directors in the King Code on Corporate Governance (SA 2000, 2003; IoD 2002, 2009). The analysis of the data from the South African respondents with the highest rate of compliance with the *Standards* compared to those of the other regions, suggests that mandatory compliance through legislation and oversight body requirements seems to be the most effective way forward. From its strategic plan it is clear that the IIA is well aware of this, and has it as a primary goal, to have the establishment of formal IAAs become mandatory requirements for all business and government entities globally.

A positive summary of the CBOK 2010 data is that the respondents from the specific regions are of the opinion that the *Standards* provide adequate guidance to internal auditors, and that South African respondents provided the highest satisfaction rating. There has also been an improvement of between 1% and 12% in the compliance ratings for the specific standards between the CBOK 2006 survey and the CBOK 2010 survey. These findings should indicate to the IIA that their approach to standard-setting, although not perfect, results in *Standards* that address the needs of the international internal audit profession.

The most significant reason offered by South African respondents for not using the IIA *Standards* is the inadequacy of their staff complement, which indicated a clear need for more qualified and skilled internal auditors within this region. The legislative and other



requirements for IAAs in the last decade have certainly placed high emphasis on the training of internal auditors in South Africa. The tertiary education sector has taken cognisance of this and whereas formal internal audit educational programmes were limited a decade ago, much more emphasis is now being placed on internal audit education and training in general, as well as on the quality of the training.

In conclusion, it is clear from the findings of the CBOK 2010 survey that the internal audit profession in SA in

general, bases its internal audit engagements on the guidance provided by the IIA. The South African respondents are mostly satisfied with the process of standard-setting and thus find the *Standards* to be adequate and will as a result use and comply with the International Standards for the Professional Practice of Internal Auditing. An area for useful future research would be to do a similar comparative study using data from the BRICS (Brazil, Russia, India, China and South Africa) countries as this will focus more specifically on the ability of internal auditors in developing countries to apply the *Standards*.

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