

Review

Perceptions on the value added by South African internal audit functions

Karin Barac¹, Kato Plant^{2*} and Kgobalale Nebbel Motubatse¹

¹University of South Africa, Department of Auditing, AJH van der Walt 2-79, CEMS, University of South Africa, Preller Street, Muckleneuk, Pretoria, 0001, South Africa

²Department of Auditing, EMS 4-93, University of Pretoria, Lynnwood Road, Pretoria 0001, South Africa.

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This article explored the perceptions on value added by internal audit functions (IAFs) of South African companies. Six attributes of value added by IAFs (including in-house, outsourced and co-sourced activities) were investigated: organizational status, staffing and work environment, the extent to which IAFs' recommendations are implemented, risk assessments, internal audit services and performance measures. Data was gathered via questionnaires from the chief executive officers (CEOs) or the chief operating officers (COOs) or the chief financial officers (CFOs), audit committee chairpersons (CACs) as well as the chief audit executives (CAEs) of 30 large South African companies. The findings revealed that IAFs are perceived to add value. With reference to the attributes investigated, it was found that IAFs report to the CACs, recommendations of IAFs are implemented, IAFs are well managed and not exploited by other functions within the organization and IAFs add value with regard to risk. Given the evolution of internal audit in recent years and the different attributes used in the literature to measure value-adding IAFs, further research could be conducted to identify generally accepted value-added attributes for IAFs, including those in the public sector.

Key words: Internal audit, internal audit quality, quality internal audit function, internal audit attributes, internal audit value added.

INTRODUCTION

Internal auditing has evolved remarkably since the founding of the Institute of Internal Auditors (IIA) in 1941 in the United States (Ramamoorti, 2003: 2). It has undergone a paradigm shift from an emphasis on accountability, focusing on the past, to improving future outcomes (Mihret and Yismaw, 2007:471). The focus of an internal audit function's (IAF) interest, therefore, shifted from traditional/compliance audit to a value-adding role where partnership with management is accorded greater significance (Cooper, Leung and Wong,

2006: 828 and 829; Abdolmohammadi, Burnaby and Hass, 2006: 814; Carcello, Hermanson and Raghunandan, 2005: 69; Van Peursesem, 2004: 379; Spira and Page 2003: 657). The changing role of IAFs has resulted in the introduction of a new definition of internal auditing in 1999, which has been revised in 2009 and states that "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 governance, risk management and control processes" (IIA, 2009).

The concept of value added is defined by the IIA as "...providing important opportunities to achieve organizational objectives, identifying operational improvement and to reduce risk exposure through both assurance and consulting services" (IIA, 2009). Over the past decade, since the introduction of the new definition, value added by IAFs has been well debated in the literature (Mihret and Woldeyohannis, 2008: 587; Sarens and De Beelde,

*Corresponding author. E-mail: kato.plant@up.ac.za. Tel: 012 420 3410, 0827824423. Fax: 012 362 5199.

Abbreviations: CAC; Chairperson of the audit committee, CAE; Chief audit executive (head of the internal audit function), CBOK; Common body of knowledge of the IIA, CEO; Chief executive officer, CFO; Chief financial officer, IAF; Internal audit function, IIA; Institute of Internal Auditors, IOD; Institute of directors.

2006: 220; Kwon and Banks 2004:619; Roth, 2003: 33; Gupta, 2001:56). Much of the emphasis in this debate focused on internal audit effectiveness and quality (Arena and Azzone, 2009: 44; Gramling and Hermanson, 2009: 37; Sarens 2009: 3; Mihret and Yismaw 2007: 472; Savčuk, 2007: 277; Felix, Gramling and Maletta 2005: 41; Gramling, Maletta, Schneider and Church, 2004: 194).

From a South African perspective, the value added by IAFs still represents a relatively unexplored area. More than a decade ago Mjoli (1997: 50) researched perceptions of the role of the IAF and its value added within a South African context. Subsequent South African internal audit studies focused on quality assurance by IAFs, for example, Venter and Du Briny (2002: 228) evaluated the status of quality assurance review practices applied in South African IAFs and Marais (2004: 59) conducted a theoretical overview of the importance of the provision of a quality service by internal auditing functions.

More recent South African studies addressed value added by IAFs. Ferreira (2007) explored whether an IAF adds value by making a positive contribution to the selection, induction or development process of audit committee members and the resulting impact on the IAF's independence. In his attempt to investigate the effectiveness of audit committees in the South African public sector, Van der Nest (2008: 179, 183-184) wanted to determine whether public sector IAFs are evaluated for effectiveness and value added.

OBJECTIVE, LIMITATIONS AND SIGNIFICANCE OF THE STUDY

The study aims to determine the perceptions of the value added by the IAFs of 30 large, listed South African companies. In order to achieve this objective, the views of the users of internal audit services were sought, including the views of chairpersons of the audit committees (CACs) and senior management, represented by either the chief executive officers (CEOs), the chief operating officers (COOs) or the chief financial officers (CFOs) of these companies, as well as the perceptions of the heads of the participating companies' IAFs, the chief audit executives (CAEs).

In the light of the limited research that exists on the value added by IAFs within the South African context, the study builds on the current body of knowledge and therefore its findings are important from a theoretical perspective. The study could benefit the IIA by providing information on the value added by IAFs, information that the IIA could use in developing its standards and providing guidance to its members. In addition, the study could be useful to companies when comparing the value added by their own IAFs to the findings reported in this paper. These findings could prompt management of companies to explore initiatives to increase the value added by their IAFs. CAEs and other members of IAFs could

evaluate their own contributions to ensure that value is added to their organizations.

This study is based on the iKUTU study as set out in the foreword to this journal and has specific limitations, as only 30 large, listed, participating South African companies were considered. The small sample size may have influenced the results and its openness to generalization may be debatable. The study was also limited to the private sector. The absence of the perceptions of users of public sector internal audit services and CAEs of IAFs in the public sector represents another limitation which future research could explore. This article is organized as follows: the next section discusses the prior research on internal audit as a value adding service. This is followed by sections on the research method, findings of the study, as well as conclusions, recommendations and areas identified for future research.

LITERATURE REVIEW

The study aims to determine important stakeholders' (CACs, CEOs/CFOs/COOs and CAEs) perceptions on the value added by their IAFs. The literature review focuses on the concept value added and the measurement of value added, the latter being tested by the empirical component of the study reported on in this article.

The concept of value added

The concept of value added has been extensively researched, not just in relation to the practice of internal auditing (Bou-Raad, 2000: 183; Nagy and Genker, 2002: 133 and 134; Roth, 2003:37; Bota-Avram, 2008:137). As discussed earlier, the IIA states that an IAF is designed to render a value-adding service to an organization. For purposes of this article, the concept of value added is discussed using the International Professional Practices Framework (IPPF) (IIA, 2009) as its point of departure. The IPPF states that an IAF will add value when it provides important opportunities to achieve organizational objectives, when it identifies operational improvement and when it contributes to reducing risk exposure through both assurance and consulting services.

With regard to the aforementioned explanation, it is important to note that the concept of value added as explained by the IIA entails, firstly, that the IAF provides important opportunities to achieve organizational objectives. This implies that the IAF should assist the organization in achieving its objectives, including its strategic objectives. A study conducted by Melville (2003: 210) found that the IAF plays an active role in strategic management within organizations by evaluating and supporting the strategic management decisions made. Ray (2009:5) argues that the IAF should be viewed as a

support function (with reference to Porter's value chain model) creating value within the organization and assisting in the achievement of organizational objectives.

Secondly, the IAF should identify operational improvement. This is echoed in the definition of internal auditing, which highlights that the IAF's activities should contribute to the improvement of the organization's operations (IIA, 2009). According to the Standards, the IAF must evaluate and contribute to the improvement of, specifically, governance, risk management and control processes, systems and operations (IIA, 2009). A wide body of knowledge exists on the contributions of IAFs to corporate governance (Sarens, 2009: 2; Archambeault, DeZoort and Holt, 2008: 376; Carcello et al., 2005: 71; Paape, Scheffe and Snoep, 2003:261), risk management (Fraser and Henry, 2007: 403; Sarens and De Beelde, 2006: 238; Beasley, Clune and Hermanson, 2005:522) and control processes, systems and operations (Jeffrey, 2008: 19, Savčuk, 2007: 279 - 281; Zain, Subramaniam and Stewart, 2006: 4-5; Fadzil, Haron and Jantan, 2005: 849-850), Fadzil et al. (2005: 864), for example, argued that value added should be a high priority for the CAE, in order to influence the control, risk management and governance processes. Gramling and Hermanson (2006: 37) and Bookal, (2002: 48) believed that internal auditors adding value should be proactive in taking steps to educate their board and audit committees on possible governance roles.

Thirdly, the IAF should contribute to reducing risk exposure. In order to reduce the risks identified, the IAF needs to determine what obstacles may stand in the way of achieving the objectives and also assess the controls that are in place to determine whether those controls are appropriate and adequate in the light of the risks identified (Sawyer, Dittenhofer and Scheiner, 2003: 141-142). According to the Standards (IIA, 2009), the IAF must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations and information systems regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, regulations and contracts. Muhlestein (1993: 36) argued more than a decade ago that internal auditors need to focus on major risk exposures and create ways to audit these exposures. De la Rosa (2007: 52) reiterated the fact that internal auditors are responsible for the evaluation of the accuracy of an enterprise's risk management reporting and should provide independent and value added recommendations to management. Internal auditors are adding value by responding to the risk impact through communication, controls and contingencies (Pickett, 2005: 59; Hermanson, Ivancevich and Ivancevich, 2008: 14; Nagy and Cenker, 2002: 134).

Lastly, the definition of value added highlights the fact that the IAF adds value by rendering both assurance and consulting services. The previous definition of internal

auditing focused on the independent appraisal, evaluation or examination service rendered by the IAF whereas the new definition focuses on the value to be added and the evaluation and improvement of processes by the internal audit services. The previous definition advocated the assurance services of the IAF, whereas the new definition expands the role to include both assurance and consulting services (IIA, 1999).

In a very recent study, Selim, Woodward and Allegrini (2009: 12) provided a comparison between UK/Ireland and Italian internal auditors of the nature, extent and consequences of the definitional change on internal audit consulting activities. They (2009: 21) found that although some similarities could be identified, the UK/Ireland IAFs were more involved in change management, while the majority of Italian IAFs were involved in model design and implementation. The finding of the Flesher and Zanzig study (2000: 335), however, should be borne in mind, namely; that effective internal auditors would not "allow their role as...consultant to interfere with their ability to provide independent evaluations".

Measurement of value added

Several scholars have explored ways in which to measure the value added by IAFs, but Roth (2003: 34) maintained that value-adding IAFs tend to share similar attributes. The concept of value added internal audit held by IAFs has direct relevance to internal audit effectiveness, because the latter serves as a measure of the former. Savčuk (2007: 277) agreed with this notion and believed that an IAF, being a constituent part of corporate governance, can add value to an organization only if it is effective. She (2007: 281-282) used the following attributes for IAF effectiveness: subordination to the audit committee, professional certification, experience, internal audit strategy and operating responsibilities. Arena and Azzone (2009: 44) linked the effectiveness of an IAF to the resources and competencies of the internal audit team, activities and processes performed and its organizational role.

In a survey conducted for the IIA Research Foundation (Adding value: Seven Roads to Success), information was solicited regarding best practices in value-adding internal auditing (Roth, 2003: 34). He (2003: 35-37) identified the following five value-adding attributes for IAFs: organizational alignment, extensive staff expertise, challenging work environment, risk assessment of the audit universe and an array of audit services. Dittenhofer (2001:467-468) suggested that the following four attributes would make the internal audit process more useful and more efficient and would improve its position vis-à-vis management's opinion of its value; adequate IAF interaction with the organization; internal restructuring, creation of new services and methods and using technology. Cooper, Leung and Matthews (1996: 23-24) repor-

ted on a survey conducted by Arthur Anderson to determine the global best practices for internal auditing and identified the following eight attributes: understanding customers, regarding the IAF as a company service line, including quality control concepts, focusing on the business and its controls, expanding the role of the IAF, regular communication, integration of technology and a professional satisfied staff complement.

Gupta (2001: 62 - 73) identified the following IAF value adding attributes: assessing the inherent level of complexity in an organization, identifying internal audit customers and their needs, developing a mission and vision for the IAF, taking a process view of the IAF, developing an internal audit business model, using information technology as an enabler and developing an appropriate internal audit strategic plan. In a recent study, Mihret and Woldeyohannis (2008: 573) applied the framework of attributes of a value-adding IAF developed by Roth (2003) to an Ethiopian case study. They found (2008: 586-587) that a traditional/compliance audit approach is dominant in the organization studied and concluded that the goals and strategies pursued and the level of risk faced by an organization appears to shape the value-adding attributes of an IAF.

In her publication "Adding Value: How modern internal auditing assists organisations in achieving strategic objectives", Ray (2009: 13) acknowledges that there are many ways to measure whether or not IAFs add value to their companies. She (2009:13) refers to the CBOK study which found that the four attributes most commonly applied are: determining the extent of the implementation of the IAF's recommendations; assessment by engagement client surveys from audited departments; the extent of reliance placed by external auditors on the work of the IAF as well as the number of management requests for assurance and consulting services.

RESEARCH METHOD

An overview of the research method used during the iKUTU study is included in the foreword of this journal. As this article is based on the iKUTU study, the described methodology was used.

This article aims to determine the perceived value added by IAFs of 30 large, listed companies. For the purposes of this article, six attributes of value added were explored. Five of these attributes were identified by Roth (2003:34 - 37) and recently applied in the Mihret and Woldeyohannis study (2008:573), while the remaining attribute (the extent of the implementation of the IAF's recommendations) was identified by the 2006 CBOK study as one of the attributes of value-adding IAFs most commonly applied (Ray 2009). The six attributes investigated in the study and reported on in this article are organizational status, staffing and work environment, the extent to which IAFs' recommendations are implemented, risk assessments, internal audit services and performance measures. In the aforementioned exploration, all IAF activities were taken into account. Where a company used an in-house IAF as well as an outsourced IAF (effectively co-sourcing its internal audit), the values of the perceptions for both the in-house and the outsourced IAFs were taken into account through the use of an average. This approach ensured comparability with companies that used either an

in-house IAF or an outsourced IAF. Respondents had the option not to express their views if they regarded them as not applicable. It resulted in a varied number of responses. Where relevant, the number of responses is provided in the discussion of the results of the study.

RESULTS AND DISCUSSIONS

The study aims to determine the perceptions of the value added by the IAFs of 30 large, listed South African companies. Based on the literature, six attributes of value added by IAFs (including in-house, outsourced and co-sourced activities) were investigated: the organizational status of an IAF contributing to value-adding, staffing and work environment conducive to value-adding; value added with reference to the extent to which recommendations made by IAFs were implemented, value added through IAFs' involvement in risk, value added with reference to services provided by IAFs and value added based on performance measures.

Organizational status of an IAF

To assess the organizational status of an IAF the CEO/CFO/COO and CAC respondents were required to indicate to whom the CAE reports. Seventeen (56.7%) of the CEO/CFO/COO respondents indicated that their companies' CAEs have a functional reporting relationship with the chairperson of the audit committee. According to the CAC respondents, 83.3% (25/30) of their companies' CAEs reported to them functionally. Although it appears as if these two groups of respondents identified the functional reporting responsibility of their companies' CAEs differently, it seems that more than half of the companies followed the acceptable practice of having an IAF with a functional reporting relationship with the company's audit committee. CAE respondents were required to indicate on a scale of 1 (strongly disagree) to 5 (strongly agree) whether they were regularly consulted by or met with the chairperson of the audit committee. A mean score of 4.17 was obtained, indicating that the CAE respondents strongly agreed with this statement. These respondents agreed (mean score 3.76) with the statement that their IAF was included in management meetings but they did not express any disagreement or agreement (mean score 2.64) with the statement that their IAF was included in board meetings.

Staffing and work environment

In order to assess the staffing and work environments of the IAFs, CAE respondents were required to indicate (on a scale of 1 to 5, indicating strong disagreement to strong agreement) whether they agreed/disagreed with the statements described in Table 1. A response of "3" was taken to indicate an agreement higher than "2" and lower than "4", rather than being an indication of the "central

Table 1. CAE perceptions on IAF work environment and staffing.

No.	Statement	n	Mean	Agreement
1	The IAF is regarded as a training ground for operational managers	29	3.00	N
2	The IAF is regarded as a safe department in which to develop inexperienced staff	29	2.55	D
3	The IAF provides advice to other departments	29	3.66	A
4	The IAF provides resources to other departments	29	2.31	SD
5	The IAF effectively understands all the key operations of the company	29	4.24	SA
6	The IAF is provided with sufficient resources to operate effectively	29	3.97	A
7	The IAF has to acquire additional skills in order to meet future requirements	29	4.21	SA
8	The IAF is not used to placing non-performing staff from other functions within the company	29	4.31	SA

Marginal mean interpretation: SA = Strongly agrees (mean ≥ 4.00); A = Agrees ($3.50 \leq \text{mean} < 4.00$); N = Neither agrees or disagrees ($3.00 \leq \text{mean} < 3.50$); D = Disagrees ($2.50 \leq \text{mean} < 3.00$); SD = Strongly disagrees (mean < 2.50).

tendency bias". One CAE respondent refrained from expressing his/her views, which brings the total number of respondents for this question to 29. The CAE respondents did not perceive their IAF as a function to be exploited by other departments within their companies. They strongly disagreed that their IAFs were used to provide resources to other departments, disagreed with the perception that their IAFs are regarded as a safe department within which to develop inexperienced staff, strongly agreed that their IAFs were not used to accommodate non-performing staff from other functions within their companies and were neutral towards regarding their IAFs as a training ground for operational managers within their companies.

These respondents believed that their IAFs understood their work environment because they strongly agreed with statement 5 in Table 1. They also perceived that their IAFs have sufficient resources to operate effectively by agreeing with statement 6 in Table 1, but strongly agreed that their IAFs should acquire additional skills in order to meet future requirements.

Extent of the implementation of the IAF's recommendations

Using the same rating scale as discussed above, the CAE respondents agreed strongly (mean score 4.59) with the statement that recommendations made by their IAFs were implemented by management. CAC and CEO/CFO/COO respondents were required to indicate the extent to which their companies' management implemented recommendations made by their IAFs. Five possibilities were identified: always, frequently, sometimes, occasionally and never. Ten CAC (33.3%) and fifteen CEO/CFO/COO (50%) respondents indicated that the management of their companies always implemented recommendations made by their IAFs. The percentages for CAC and CEO/CFO/COO respondents who indicated that the recommendations made by their IAFs were frequently implemented were 60% and 50% respectively. The remaining 6.7% of CAC respondents (two respon-

dents) indicated that only sometimes the recommendations made by their IAFs were implemented by the management of their companies.

Risk assessment

CAE and CEO/CFO/COO respondents were required to indicate the value-adding contributions made by their IAFs with regard to risk assessment, risk management and risk communication in their companies. It was expected of these respondents to rate their companies' IAFs on a five-point scale, from 1 (where no contribution was perceived to be made) to 5 (where a significant contribution was perceived to be made). A response of "3" was taken to indicate a higher contribution than "2" and lower than "4", rather than being an indication of the "central tendency bias". All the respondents perceived that their companies' IAFs made high contributions to risk assessment (identifying and measuring the impact and the likelihood of significant risks in their companies) and risk management (designing, operating and monitoring an appropriate risk system in their companies). CAC respondents perceived this contribution also to be high for risk communication. The latter included reporting on risks, systems and processes in their companies, for example, to maintain a risk database. Table 2

Internal audit services

Twenty nine CAE respondents answered the questions relating to the services performed by their IAFs, where it was expected of them to indicate whether their IAFs followed the identified practice or not. Nearly all of these respondents (96.6%) indicated that they followed an internal audit methodology and that their engagements were conducted in accordance with the IIA's Standards for the Professional Practice of Internal Auditing. More than half of these respondents indicated that they performed a quality self-assessment with an independent evaluation on their IAFs' services in the past five years,

Table 2. IAFs' contributions to risk assessment, management and communication.

Risk	n		Mean		Value	Value
	CEO ¹	CAC	CEO ¹	CAC	CEO ¹	CAC
Assessment	30	28	3.80	3.93	H	H
Management	30	30	3.68	3.80	H	H
Communication	30	29	3.45	3.66	A	H

Marginal mean interpretation: S = Significant contribution (mean \geq 4.00); H = High contribution ($3.50 \leq$ mean $<$ 4.00); A = Average contribution ($3.00 \leq$ mean $<$ 3.50); L = Limited contribution ($2.50 \leq$ mean $<$ 3.00); N = No contribution (mean $<$ 2.50) CEO¹ = CEO/CFO/COO.

Table 3. Value added by IAFs on activities.

Activities	n		Mean		Value	Value
	CEO ¹	CAC	CEO ¹	CAC	CEO ¹	CAC
Corporate governance	30	30	2.87	1.88	M	H
Enterprise risk management	30	30	2.70	1.72	M	H
Control environment	30	29	2.47	1.48	M	H
Operational effectiveness	30	30	2.93	1.98	M	H
Reputation of the company	30	30	3.12	2.10	L	M
Independent assurance	30	30	2.65	1.68	M	H
Mergers and acquisitions	29	26	4.03	3.00	N	L
Forensic investigations	29	27	3.36	2.15	L	M

Marginal mean interpretation: N = No value added (mean \geq 4.00); L = Limited value added ($3.00 \leq$ mean $<$ 4.00); M = Moderate value added ($2.00 \leq$ mean $<$ 3.00); H = High value added (mean $<$ 2.00) CEO¹ = CEO/CFO/COO.

while a higher percentage (65.5%) indicated that an external quality assessment on their IAFs was performed during the past five years. An even higher percentage (72.0%) of these respondents indicated that they had a comprehensive training programme for their internal audit staff. With regard to the attribute of value-added to internal audit services, CAC and CEO/CFO/COO respondents were requested to rate the current value added (Table 3) and expected value that could be added (Table 4) by their IAFs with regard to eight identified activities. The ratings were measured on a four-point scale providing for: H = significant value added, M = moderate value added; L = Limited value added and N = no value added. CEO/CFO/COO respondents perceived that moderate value was added by their companies' IAF in respect of five of the eight identified activities. CAC respondents perceived the value added for these activities by their companies' IAFs to be high. They perceived the value-adding of their companies' IAF to be limited only on mergers and acquisitions, while the CEO/CFO/COO respondents perceived limited value added in respect of the reputation of their companies as well as forensic investigations. Table 4 illustrates the perceptions of CEO/CFO/COO and CAC respondents with regard to the expected value added by their compa-

nies' IAFs on the identified activities. CAC respondents perceived the future value added by their companies' IAFs to be high for all the listed activities except for the IAF's contributions to mergers and acquisitions. In respect of this activity they perceived that the value added will increase in future from limited to moderate value. The CAC respondents also perceived that the current value added by their companies' IAFs will increase from moderate value to high value for activities relating to the reputation of their companies and for forensic investigations.

As in the case of the perceived current value added by IAFs, the CEO/CFO/COO respondents perceived that their IAFs will mostly add moderate value in future except for activities relating to mergers and acquisitions and for forensic investigations. These respondents also perceived that moderate value is added by their companies' IAFs with regard to the majority of the current activities provided.

Performance measures

CAC and CEO/CFO/COO respondents were required to rate their level of satisfaction with the current state of

Table 4. Expected value added by IAFs on activities.

Activities	n		Mean		Value CEO ¹	Value CAC
	CEO ¹	CAC	CEO ¹	CAC		
Corporate governance	30	29	2.62	1.55	M	H
Enterprise risk management	30	30	2.42	1.60	M	H
Control environment	30	30	2.28	1.33	M	H
Operational effectiveness	30	30	2.63	1.80	M	H
Reputation of the company	30	30	2.87	1.97	M	H
Independent assurance	29	30	2.22	1.55	M	H
Mergers and acquisitions	29	27	3.72	2.48	L	M
Forensic investigations	29	28	3.09	1.82	L	H

Marginal mean interpretation: N = No value added (mean \geq 4.00); L = Limited value added ($3.00 \leq$ mean $<$ 4.00); M = Moderate value added ($2.00 \leq$ mean $<$ 3.00); H = High value added (mean $<$ 2.00) CEO¹ = CEO/CFO/COO.

Table 5. Satisfaction with attributes of IAFs.

Activities	n		Mean		Value CEO ¹	Value CAC
	CEO ¹	CAC	CEO ¹	CAC		
Competence	30	30	4.08	4.35	S	S
Commitment	30	30	4.58	4.43	ES	S
Effectiveness of services	30	30	4.17	4.27	S	S
Flexibility	30	30	4.10	4.13	S	S
Value added	30	30	3.83	4.10	S	S
Meets expectations	29	30	4.00	4.17	S	S

Marginal mean interpretation: ES = extremely satisfied (mean \geq 4.50); S = Satisfied ($3.50 \leq$ mean $<$ 4.50); N = neither satisfied nor dissatisfied ($3.00 \leq$ mean $<$ 3.50); D = dissatisfied ($2.00 \leq$ mean $<$ 3.00); ED = extremely dissatisfied (mean $<$ 2.00) CEO¹ = CEO/CFO/COO.

their companies' IAFs, based on six qualities: competence, commitment, effectiveness of services, flexibility to accommodate management needs, value added and reaching expectations. These perceptions were measured on a five-point scale ranging from 1 (extremely dissatisfied) to 5 (extremely satisfied). A response of "3" was taken to indicate an importance higher than "2" and lower than "4", rather than being an indication of the "central tendency bias". Table 5 indicates that the CAC respondents were satisfied with all six identified qualities of their companies' IAFs, while the CEO/CFO/COO agreed, except for the quality commitment, with which they were extremely satisfied. These findings indicate that the qualities of the IAFs of the participating companies are perceived in a positive light.

CONCLUSION, RECOMMENDATIONS AND AREAS FOR FUTURE RESEARCH

This article explored the perceptions on value added by IAFs of South African companies. The concept of value added was studied and the ways in which value added is

measured were explored in the literature review. Based on the literature, six attributes of value added by IAFs (including in-house, outsourced and co-sourced activities) were investigated: the organizational status of an IAF contributing to value-adding, staffing and work environment conducive to value-adding; value added with reference to the extent to which recommendations made by IAFs were implemented, value added through IAFs' involvement in risk, value added with reference to services provided by IAFs and value added based on performance measures. Data relating to the six attributes was gathered from the main users of internal audit services of 30 large listed South African companies to determine the perceptions on value added by their IAFs. The findings of the study reported in this article indicate that the majority of the CAEs of participating companies report to the CACs for functional purposes. It is in accordance with IIA Standards and best practices (Christopher, Sarens, Leung, 2009:214). The CAE respondents further believe that their IAFs understand their work environment and have sufficient resources to operate effectively but perceive that their IAFs should acquire additional skills in order to meet future require-

ments. This finding should be investigated to determine the competencies (knowledge, skills and attitudes) required of internal auditors at specific levels and the current and expected shortfall in the supply of competent internal audit managers, seniors, assistants and trainees. These respondents did not perceive their IAF as a function to be exploited by other departments within their companies. They strongly disagreed that their IAFs were used to provide resources to other departments and disagreed with the perception that their IAFs are regarded as a safe department to develop inexperienced staff and they were neutral towards regarding their IAFs as a training ground for operational managers within their organizations.

CAE respondents agreed strongly with the statement that recommendations made by their IAFs were implemented by management. Nearly all the CAC respondents (93.3%) and all of the CEO/CFO/COO respondents perceived that the managements of their companies always or frequently implemented the recommendations made by their IAFs. It appears as if the activities of IAFs within the participating companies are well managed. Nearly all CAE respondents indicated that they followed an internal audit methodology and that their engagements were conducted in accordance with the IIA's Standards for the Professional Practice of Internal Auditing. These respondents indicated that they had a comprehensive training programme for their internal audit personnel. Performance of quality self-assessments with independent validation evaluation and external quality assessment on the participating companies' IAFs appear to be a followed practice.

Both CAC and CEO/CFO/COO respondents perceived that their companies' IAFs made a high contribution in the assessment and management of company risks. The findings of the study further indicate that these respondents perceived at least moderate value to be added by their companies' IAFs in respect of the following activities: corporate governance, enterprise risk management, control environment, operational effectiveness and independent assurance. Their perceptions on the future value to be added by the activities of their companies' IAFs were even higher than the perceived current value.

The findings of the study showed that both groups of user respondents (CAC and CEO/CFO/COO) were satisfied that their companies' IAFs demonstrated the following qualities: competence, commitment, effective service performance and flexibility. They also expressed their satisfaction with the value added by these IAFs and perceived them as meeting their expectations. In the light of the findings discussed above, it appears as if the IAFs of participating companies could be regarded as value-adding functions within their companies.

This article makes an initial attempt to determine the value added by IAFs of large, listed companies in South Africa, a relatively unexplored area. This fact, as well as the limitations of the study, provides future research opportu-

nities. The value added of other entities' IAFs, including those in the public sector, should be explored. Given the evolution of internal audit in recent years and the different attributes used in the literature to measure value-adding IAFs, further research could be conducted to identify generally accepted value-added attributes for IAFs. Such attributes could then be incorporated into the IIA guidelines to members, which will enable the latter to measure their own value-adding IAF.

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