**Professionalism apparent from South African internal audit functions’ use of the Standards**

JM van Staden  
Department of Auditing  
University of South Africa

K Barac  
Department of Auditing  
University of Pretoria

LJ Erasmus  
Department of Public Sector Finance  
Tshwane University of Technology

KN Motubatse  
Department of Auditing  
Tshwane University of Technology

**ABSTRACT**

When stakeholders perceive that members of a profession do not live up to their professional obligations, the profession loses prestige. Professions use various measures, including professional standards, disciplinary processes and dedicated quality assurance standards to remain relevant to their clients and to the greater business community. The internal audit profession often expresses a desire to improve its standing as a profession. This paper asserts that members’ compliance with professional standards, including those on quality assurance, impacts on the internal audit profession’s standing. Firstly, this paper provides a theoretical overview of the link between professional standards and professionalisation, and secondly, describes aspects of the current use of professional standards by South African internal audit functions. The data used was collected by the Institute of Internal Auditors Research Foundation as part of its 2010 Common Body of Knowledge study. A large percentage of South African chief audit executives responded, reporting that their internal audit functions did not comply fully with professional standards, while of those who did report full compliance, only a minority reported having implemented a quality assurance and improvement programme, and only a small number reported having had external quality assurance reviews. This paper contributes to corporate governance literature in a developing country setting and it provides insights into possible reasons why the internal audit profession’s quest for professionalisation remains a challenge.

**Key words**

Internal audit; professional standards; quality assurance; professionalisation; CBOK; South Africa

**Acronyms**

<table>
<thead>
<tr>
<th>CAE</th>
<th>Chief audit executive</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBOK study</td>
<td>Common Body of Knowledge Study</td>
</tr>
<tr>
<td>CIA</td>
<td>Certified internal auditor</td>
</tr>
<tr>
<td>IAF</td>
<td>Internal audit function</td>
</tr>
<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
</tr>
<tr>
<td>IIARF</td>
<td>Institute of Internal Auditors Research Foundation</td>
</tr>
<tr>
<td>IIASA</td>
<td>Institute of Internal Auditors South Africa</td>
</tr>
<tr>
<td>IoD</td>
<td>Institute of Directors</td>
</tr>
</tbody>
</table>

| King III | King III Report and Code on Governance for South Africa |
| QAIP | Quality assurance and improvement programme |
| Standards | International Standards for the Professional Practice of Internal Auditing |
| UK | United Kingdom |
1 INTRODUCTION

The previous chair of the Institute of Internal Auditors (IIA), Günther Meggeneder (in Jackson 2011:38), declared that devising and implementing strategies aimed at achieving the worldwide recognition of internal auditing as a profession, was the most important objective of the IIA. The IIA has long been striving to improve the standing of internal auditing as a profession that adds value to organisations, through the ever expanding range of services that internal audit functions (IAF) render (Arena & Jeppesen 2010:112; Marais 2004a:104). These attempts by the IIA have not always been successful, as evidenced by the continued presence on the IIA’s main agenda of calls to promote the recognition of internal auditing as a profession (Institute of Internal Auditors Research Foundation (IIARF) 2010; Jackson 2011:38).

This paper attempts to provide some insights into possible reasons for the challenges experienced by the internal audit profession in its progress towards professionalisation. An overview of the process of professionalisation reveals a clear link between the adoption and use of professional standards and a profession’s progress towards professionalisation (Greenwood 1957:46; Goode 1957:194; Larson 1977:14). The internal audit profession has made definite strides in the process of the development and adoption of professional standards. The first internal audit standards (known as “International Standards for the Professional Practice of Internal Auditing” or “Standards”) were published by the IIA in 1978 (Arena & Jeppesen 2010:113) and they are continuously updated (IIA 2010:2). The IIA declares that the Standards are “principles-focused mandatory requirements essential in meeting the responsibilities of internal auditors” (IIA 2010:1). Previous research has however revealed that a large percentage of internal auditors did not comply fully with the Standards (IIARF 2007:108; Marais, Burnaby, Hass, Sadler & Fourie 2009:890). Recent information on South African internal auditors’ use of the Standards is described in this paper. This paper contributes to the debate on the strategies that the internal audit profession should implement towards attaining recognition as a profession worldwide. This paper also contributes to the small body of existing corporate governance literature in developing country settings. The focus of this paper is on corporate governance activities in South Africa, as the corporate governance reports issued here in 1994, 2002 and 2009 are considered turning points in the international corporate governance reform agenda (Brennan & Solomon 2008:890).

The paper is structured around four objectives, namely:

• To provide a review of the literature on the link between professionalisation and professional standards, and to discuss strategies for over-seeing compliance with professional standards.
• To describe the results of the 2010 CBOK study on the level of full compliance with the Standards as a whole, and the use of the quality assurance Standards specifically by South African IAFs.
• To describe the reasons offered by South African CAEs contributing to the 2010 CBOK study for not complying with the Standards.

The paper ends with a section that sets out conclusions, limitations, and areas for further research.

2 LITERATURE REVIEW

2.1 Achievement of professionalisation through adherence to professional standards

An understanding of the practices that underlie professionalism assists in benchmarking a profession’s progress towards professionalisation. “Professionalisation” involves the process by which an organised occupation claims to provide quality work (Goode 1957:195) based on a body of relatively abstract knowledge which can be practically applied (Larson 1977:44-45). Professionalism thus entails control over members and their work by a professional association to prevent the abuse of professional power and to ensure “homogeneity of service” of individual members (Birkett & Evans 2005:108; Larson 1977:143). Professions establish and enforce compliance with standards of practice to facilitate homogeneity of service of their members (Larson 1977:144). Professional standards are based on a profession’s body of theory and serves as a base in terms of which the profession and its members can rationalise their functioning (Greenwood 1957:47). Baer (1986:533) notes that professional standards provide a key control of professions, since they reflect the minimum requirements for service quality that society expects of a profession and its members.

The importance of compliance with professional standards as key to sustaining a profession has long been recognised. Harris-Jenkins (1970:74) studied the importance of such compliance and concluded that members’ compliance with a profession’s requirements ensures the continued existence of a profession. Kalbers and Fogarty (1995:66) point out that a professional group is made up of individuals and that the group’s status is predicated on the aggregate tendencies of its individual members to comply with the profession’s requirements. Professions and their members should take cognisance that the continued existence of the profession, and the prestige that the profession is afforded by society, are dependent on the extent to which its practising members adhere to common values prescribed by the professional body, as well as the control and discipline that the professional body exercises over individual members who do not adhere to these values (Goode 1957:194; Harris-Jenkins 1970:81; Larson 1977:225; West 1998:7). Since internal audit standards contain the principles for internal auditing (IIA 2010:1), the Standards can be regarded as containing the common values prescribed by the internal audit profession.

The IIA recognises the diverse natures of organisations and their IAFs, and the environments that the IAFs operate in. However, the IIA states that these differences may merely affect the practical
detail of internal auditing by individual IAFs, but that compliance with the Standards remains essential to ensuring that internal auditors and IAFs meet their responsibilities (IIA 2010:1). Sarens (2009:4) asserts that compliance with the Standards results in a quality internal audit. The IIARF (2010) agrees about the importance of internal auditors’ compliance with the Standards in their quest to achieve unchallenged recognition of internal auditing as a profession, and declares:

“Full compliance with the Standards helps enhance the standing of both the internal audit profession and individual audit activities. Anything short of full compliance erodes the ability of internal auditors to gain the full respect and support of their key stakeholders and to be viewed as true professionals by these stakeholders. An organization would not accept failure on the part of its external auditor to comply with their professional standards; likewise, compliance with internal audit standards deserves the same high level of respect”.

The current chairperson of the IIA has vowed to encourage internal auditors to maintain their relevance through full compliance with the Standards, especially the quality assurance standards (Beran 2011:55).

The IIARF conducted the 2010 Common Body of Knowledge (CBOK) study which, inter alia, presents evidence that 89% of respondents to the stakeholder expectations survey were of the opinion that adherence to the Standards increased their confidence in the activities of the internal audit profession (IIARF 2010). It thus follows that evidence about internal auditors’ views on the importance of full compliance with the Standards and the need to actively pursue this, is likely to impact on the perceptions of users of internal auditing about the value that internal audit professionals add to an organisation.

Results of empirical studies revealed that compliance with professional standards was not a priority pursued by all professional internal auditors. The 2010 CBOK study (IIARF 2010) revealed that only 46.3% of the 2 866 responding chief audit executives (CAE) from 107 countries replied positively to the question whether their organisations were in full compliance with the Standards as a whole. The comparative percentage of the 2008 CBOK study was 59.9%, indicating a significant drop of 13.6 percentage points (22.7% actual) in the number of CAE respondents who reported that their organisations were in full compliance with the Standards as a whole (IIARF 2007:108).

2.2 Strategies to oversee adherence to professional standards

2.2.1 Oversight by the professional body

Professional bodies use various strategies to facilitate and regulate their members’ compliance with the profession’s standards (Hall 1968:93). Some professions, like external auditing, use statute-driven compulsory reviews organised by the professional body to verify the performance of professional work by their members. An example of statute-driven professional body oversight is that of the Independent Regulatory Board for Auditors which oversees external auditors’ execution of their duties in South Africa in terms of Section 47 of the Auditing Profession Act (South Africa 2005). This is commonly referred to as “practice review”. Currently, the internal audit profession does not have statute-driven oversight over its members. Internal auditing is legally required only in a few countries and only for a handful of specific industries: for example, in South Africa all public entities are legally required to appoint internal auditors (South Africa 1999), while in Denmark and some other European countries, only banks are legally required to do so (Arena & Jeppesen 2010). Even the much publicised Sarbanes-Oxley Act of 2002, which regulates companies’ financial reporting in the United States of America, is silent on the need for organisations to have internal auditors (Abbott, Parker & Peters 2010:2). As Harris-Jenkins (1970:64-66) puts it, the impact of self-regulation on professions that are legally recognised is more severe than that of professions that are not. He explains that expelled members of a legally recognised profession will find it more difficult to find professional employment, while expelled members of a profession that does not enjoy legal recognition, like internal auditors, may still practice as internal auditors, as their right to practice is not linked to their being in good standing with their professional bodies.

Despite the low prevalence of a legal requirement for an internal auditing function to exist in enterprises, internal auditing is generally recognised as an important part of sound corporate governance (Van Peursem 2005:489). The listing requirements of the Johannesburg Securities Exchange of South Africa require companies listed on it to appoint internal auditors (Institute of Directors (IoD) 2009:5) while the New York Stock Exchange has a similar requirement (Abbott et al 2010:1; Schneider 2009:42). The King III Report and Code on Governance for South Africa (King III) (IoD) 2009:6), is mandatory for all organisations in South Africa on a ‘comply or explain basis’, and requires boards to ensure that their organisations perform effective risk-based internal audits.

The absence of active regulation of internal auditors’ compliance with the Standards, either by the State or the internal auditing profession itself, may be the reason why practising internal auditors are apparently indifferent when it comes to a full application of and compliance with the Standards. The views expressed by the IIA (2010:1), IIARF (2010) and individual IIA executives (Beran 2011:55) on the critical need for internal auditors to comply with the Standards in order to build the internal audit profession’s status, points to the need for vigorous intervention by the internal audit profession to facilitate higher levels of compliance with the Standards.

An understanding of the reasons why practising internal auditors are not complying fully with the Standards is required to enable the internal audit profession to devise and implement appropriate strategies that would encourage full compliance with the Standards and thereby enhance the standing of the profession in the process. From a review of the
literature several reasons have been identified why internal auditors are not complying fully with the Standards. Organisational-professional conflict is indicated as a cause of non-compliance with the Standards since, in order to satisfy management’s organisational objectives (usually to increase profitability by cutting costs), compliance levels are reduced, and by so doing, internal auditors get to keep their jobs (Aranaya & Ferris 1984:2; Hall 1968:103; Pei & Davis 1989:112). Internal auditors may also, contrary to the IIA’s expressed views, perceive that less than full compliance with the Standards is acceptable (along the lines of half a cupful being better than none), as evidenced by the use of the term “general conformance” by certain internal auditors (Armanas 2007:56; IIARF 2010; Johnston & Kirch 1996; Sadler, Marais & Fourie 2008:137).

2.2.2 Disciplinary action by the professional body

Professional bodies may be entitled to discipline their members when members do not comply with the standards of conduct of that profession (Harris-Jenkins 1970:64). Internal auditors in South Africa may voluntarily apply for membership of the Institute of Internal Auditors South Africa (IIA SA) (IIA SA 2010:4, 11). The by-laws of the IIA SA (IIA SA, 2010:3) state that it is the mission of the IIA SA to “promote, protect and maintain the interests of members and to enhance the integrity, relevance and standing of the Institute and the profession, to the benefit of society”. In Addendum 3 to these by-laws, the Rules of Conduct of the IIA SA require internal auditors to perform internal audit services in accordance with the Standards in order to ensure that they comply with the profession’s competency requirements (IIA SA 2010:19). The IIA SA (2010:13) declares that the overriding aim of its disciplinary procedures is to ensure that standards of professional conduct are upheld, including adherence to the Standards, and if any of its members fail to adhere to the Standards, reasonable steps will be taken by the IIA SA to ensure the protection of the profession and the high standards of the IIA Incorporated (IIA SA 2010:13). West (1998:7) emphasises that should a profession fail to enforce its own standards, it would provide “unequivocal evidence” that the profession was failing in one of the most fundamental professional claims, that of self-regulation.

In the absence of active oversight over internal auditors by the internal audit profession, practicing internal auditors may perceive that even when they do not comply fully with the Standards, disciplinary action by the profession is unlikely, and should it occur, such action would have limited impact on their individual professional careers. This may enable internal auditors to be less diligent in their pursuit of full compliance with the Standards.

2.2.3 Quality assurance standards to evaluate compliance with professional standards

Professional bodies may prescribe standards that set out their members’ responsibilities relative to the quality assurance of their work. The IIA adopted its first quality assurance standards ten years ago, in 2002, which included the requirement that all IAFs should have undergone their first external quality assessment by 1 January 2007 (Baker 2006:90). The internal audit profession mainly uses its quality assurance standard, Standard AS1300: Quality Assurance and Improvement Programme, as the method to guide its members’ quality assurance activities. King III (IIA 2009:93) requires internal auditors to comply with the Standards and makes it the audit committee's responsibility to ensure that the IAF is subject to independent quality review. On the other hand, those statutes that enforce the use of internal auditing are usually silent on aspects related to the quality of the internal audit services rendered.

The Standards contain seven specific standards on quality assurance that set out various quality assurance principles that internal auditors should meet (IIA 2010:6-8). The CAE is required to develop and maintain a quality assurance and improvement program (QAIP) that covers all aspects of the IAF (Internal Auditor 2009:61). The IIA recommends that establishing a QAIP should be one of the steps in the process of building an IAF (Burch 2011:48). The QAIP should include both internal and external assessments (Internal Auditor 2009:61). The internal assessments should also include on-going monitoring of the performance of the IAF, as well as periodic reviews performed through self-assessment, or by other persons within the organisation with sufficient knowledge of internal audit practices. On-going monitoring of engagement performance through engagement supervision is recognised as an important tool to ensure that the audit team applies audit procedures correctly and that their resultant conclusions are also correct (Dogas 2011:56-57).

The Standards require external assessments to be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation (IIA 2010:7). External assessments are considered to be the foundation of self-regulation of the internal audit profession and have as their objective the continuous improvement of professional practice (Armanas 2007:56; Internal Auditor 2006:79). External assessors are appointed by the CAE (IIA 2010:7). External assessments could also take the form of an independent validation of an assessment that was done in-house (Armanas 2007:56). King III makes South African audit committees responsible for ensuring that their IAFs are subjected to independent quality review (IoD 2009:63).

The CAE should communicate the results of the QAIP to senior management and to the board: such communication should specifically discuss the IAF’s conformance to the Definition of Internal Auditing, the Code of Ethics, and the Standards (IIA 2010:7-8). The CAE may state in this communication that the IAF conforms with the Standards, only if the results of the QAIP support such a statement. When non-conformance with the Standards impacts the overall scope or operation of the IAF, the CAE must disclose the non-conformance and probable impact to senior management and the board (IIA 2010:8).
Armanas (2007:58) recommends that quality assurance procedures should not only be viewed as important for reasons of compliance with the Standards, but that they should be regarded as a business tool that measures whether service delivery is in line with the users of internal audit services’ requirements and expectations. It is hoped that communication of the QAIP results would make senior management aware of the quality of and the value that the IAF delivers to the organisation (Armanas 2007:58). Diligent compliance with the quality assurance Standards by an IAF could thus improve users’ perceptions of the value added by internal audit professionals.

Expert internal auditors maintain that IAFs of all sizes, with and without full time quality assurance functions, should comply with the quality assurance Standards (Internal Auditor 2007:83). Furthermore, they suggest that this should be done through a requirement in the internal audit charter, that the IAF fully complies with the following aspects of internal audit (Internal Auditor 2007:83-87):

- the use of formalised assessment processes (e.g. quality checklists for supervision and review) to assess compliance with Standards and the Code of Ethics;
- the use of surveys to gauge stakeholder perceptions of the effectiveness and efficiency of the IAF;
- the use of senior auditors to evaluate each other’s work (on the assumption that they lead different audits during the year);
- the use of formal internal quality work programmes, scheduling time every quarter for performing quality assessments;
- having peer reviews performed on a collaborative basis by another internal audit function;
- having monthly meetings in the IAF to discuss challenges and opportunities;
- keeping a quarterly scorecard of quality assessment procedures performed; and
- performing an annual review of the IAFs standards and policies.

Expert internal auditors further point out the importance of keeping quality working papers that document evidence of supervision and internal and external reviews, as these provide tangible proof of compliance with quality assurance Standards (Wueste 2008:19). Gramling and Hermanson (2009: 38) emphasise that the quality of internal auditing at the engagement process level is affected by the extent of the IAF’s compliance with the quality assurance principles contained in the Standards.

A number of recent studies have reported on local and international internal auditors’ compliance with the quality assurance Standards. Sadler et al. (2008: 138) provided a worldwide perspective on internal auditors’ compliance with the Standards and reported that the quality assurance component of the Standards appears to be a barrier to IAFs’ ability to fully comply with the Standards, particularly due to the cost implications of quality assurance activities. Marais et al. (2009:897) reported that a greater percentage of South African respondents were complying with the Standards, including those on quality assurance, than those from other regions. This was in spite of the fact that local and international internal auditors reported that of all the Standards, they complied the least with the quality assurance Standards. Earlier, Marais (2003:172-173; 2004b:56, 57) concluded that quality assurance is an essential tool for IAFs to ensure that they meet the expectations of users, and that there are South African IAFs that do not adequately apply the Standards’ quality control requirements. Marais urged the IIA to take steps to motivate IAFs to practice quality control according to the Standards. The low level of full compliance with the Standards as a whole, as revealed by previous research (IIARF 2007:108; Sadler et al. 2008:134), may be an indication that, in the absence of a legal oversight requirement for the internal audit profession, the mere existence of quality assurance Standards and disciplinary rules is ineffective in its efforts to ensure that internal auditors comply with the Standards.

3 DESCRIPTION OF THE RESULTS OF THE 2010 CBOK STUDY

3.1 Methodology of data collection

This paper used selected data obtained by the 2010 CBOK study (IIARF 2010) (a secondary source), to describe aspects of South African IAFs’ use of the Standards. Corresponding results from the 2006 CBOK study (IIARF 2007) are provided to place the 2010 data in context. The authors of this paper form part of the research group that was commissioned by the IIA SA to write the report that analyses and interprets the South African data obtained by the 2010 CBOK study (IIA SA 2012). Permission to use this data in research papers was obtained from Ms Claudelle von Eck, the chief executive officer of the IIA SA.

The IIARF conducts CBOK studies periodically to capture, inter alia, the perceptions and opinions of internal auditors on various aspects of their professional duties that impact on the profession’s status worldwide. The IIARF contends that practicing internal auditors can use relevant and timely information on generally followed internal audit practices to benchmark their own practices. The IIA has expressed the hope that practicing internal auditors will modify their own practices based on lessons learnt from such global studies (IIARF 2010).

The 2010 CBOK study (IIARF 2012) made use of a questionnaire that dealt with numerous aspects of internal auditing to generate its data. This paper describes the data obtained from 61 South African CAEIs who answered eight questions that focussed on their organisations’ degree of compliance with the Standards as a whole, the reasons why the Standards were not complied with in full, and the quality assurance practices of their IAFs. The wording of each question is quoted as part of the description of the results below. Comparative data from the 2006 CBOK study is presented to provide context to the 2010 data (IIARF 2007). Additional context is
provided in the form of comparative data from the 2010 CBOK study broken down regionally into global, the rest of Africa, the United Kingdom (UK) and Ireland, Australia, and North America (IIARF 2010). However, this additional comparative data is not described or discussed in this paper.

3.2 Full compliance with the Standards as a whole by South African IAFs

CAEs were asked: “Is your organisation in full compliance with the Standards?”. Table 1 below indicates that according to their responses, only 58.9% of South African CAEs claimed full compliance with the Standards as a whole, while fewer than 50% of CAEs from most of the other regions reported full compliance. Conversely, 41.1% of South African respondents reported that their organisations were not in full compliance with the Standards as a whole, this being in spite of the fact that the IIA declares that Standards are principles-focused, mandatory requirements (IIA 2010:1).

It appears as if South African internal auditors found it particularly challenging to comply with AS1300 as only 44.62% of South African CAE respondents reported full compliance with it. This is an interesting contrast with the 58.9% of those CAEs who reported full compliance with the Standards as a whole. In 2010, 3.61% more South African CAE respondents reported full compliance with AS1300 than in 2006, although the reported increase in full compliance with individual standards was the smallest for AS1300.

AS1321 requires that the CAE may only state that the IAF conforms with the Standards “if the results of the quality assurance and improvement program support this statement” (IIA 2010:8). When the latter principle is applied, the percentage of South African respondents who reported that their organisations were in full compliance with the Standards as a whole is actually not 58.9% but a minority 44.62%. CAEs’ seemingly contradictory responses to this question may indicate that their understanding of full compliance with the Standards is different to that of the IIA, or that they have not read the Standards recently enough to have total and instant recall of all their details and implications. Further, one is tempted to reflect negatively on the impact that the reported level of non-conformance with the Standards may have on their standing in their organisations, and the senior management of their organisations’ views on the professionalism and homogeneity of service of their CAEs.

Table 1: Full compliance with the Standards

<table>
<thead>
<tr>
<th>Region / Standard</th>
<th>South Africa 2006</th>
<th>South Africa 2010</th>
<th>Global</th>
<th>Rest of Africa (excl. SA)</th>
<th>UK &amp; Ireland</th>
<th>Australia</th>
<th>North America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standards Overall</td>
<td>*</td>
<td>58.90%</td>
<td>47.78%</td>
<td>42.25%</td>
<td>57.52%</td>
<td>46.15%</td>
<td>49.80%</td>
</tr>
<tr>
<td>AS1000: Purpose, authority and responsibility</td>
<td>61.98%</td>
<td>84.62%</td>
<td>74.97%</td>
<td>57.41%</td>
<td>83.33%</td>
<td>79.31%</td>
<td>86.84%</td>
</tr>
<tr>
<td>AS1100: Independence and objectivity</td>
<td>66.82%</td>
<td>81.54%</td>
<td>78.25%</td>
<td>62.96%</td>
<td>87.36%</td>
<td>83.05%</td>
<td>88.99%</td>
</tr>
<tr>
<td>AS1200: Proficiency and due professional care</td>
<td>61.84%</td>
<td>75.00%</td>
<td>73.03%</td>
<td>55.77%</td>
<td>82.56%</td>
<td>74.14%</td>
<td>85.57%</td>
</tr>
<tr>
<td>AS1300: Quality assessment and improvement</td>
<td>41.01%</td>
<td>44.62%</td>
<td>38.36%</td>
<td>29.41%</td>
<td>54.02%</td>
<td>49.15%</td>
<td>43.37%</td>
</tr>
<tr>
<td>PS2000: Managing the internal audit activity</td>
<td>57.34%</td>
<td>75.38%</td>
<td>67.92%</td>
<td>51.85%</td>
<td>75.86%</td>
<td>77.59%</td>
<td>80.17%</td>
</tr>
<tr>
<td>PS2100: Nature of work</td>
<td>56.77%</td>
<td>73.85%</td>
<td>66.29%</td>
<td>50.86%</td>
<td>72.73%</td>
<td>72.41%</td>
<td>79.48%</td>
</tr>
<tr>
<td>PS2200: Engagement planning</td>
<td>59.15%</td>
<td>81.54%</td>
<td>66.41%</td>
<td>58.33%</td>
<td>71.59%</td>
<td>77.19%</td>
<td>78.93%</td>
</tr>
<tr>
<td>PS2300: Performing the engagement</td>
<td>63.74%</td>
<td>80.00%</td>
<td>67.92%</td>
<td>58.22%</td>
<td>77.01%</td>
<td>74.14%</td>
<td>80.93%</td>
</tr>
<tr>
<td>PS2400: Communicating results</td>
<td>70.34%</td>
<td>83.08%</td>
<td>72.22%</td>
<td>58.49%</td>
<td>80.68%</td>
<td>79.31%</td>
<td>85.08%</td>
</tr>
<tr>
<td>PS2500: Monitoring progress</td>
<td>51.99%</td>
<td>66.15%</td>
<td>63.56%</td>
<td>50.94%</td>
<td>76.14%</td>
<td>74.14%</td>
<td>74.32%</td>
</tr>
<tr>
<td>PS2600: Resolution of management’s acceptance of risk</td>
<td>50.42%</td>
<td>58.46%</td>
<td>53.29%</td>
<td>31.37%</td>
<td>65.52%</td>
<td>63.79%</td>
<td>72.74%</td>
</tr>
</tbody>
</table>


AS1300 provides a means to evaluate an IAF’s conformance with the Definition of Internal Auditing and the Standards and whether the internal auditors apply the Code of Ethics (IIA, 2010:8). When an organisation fails to comply fully with AS1300, its compliance with the Definition of Internal Auditing, the other Standards and the Code of Ethics becomes questionable. Such doubt may have negative implications for internal auditing and could affect its status as a profession. Four years ago, Sadler et al., (2008:138) suggested that the IIA SA should design and implement strategies to promote adherence to the quality assurance Standards. The 2010 CBOK study results presented in this paper reveal that responding South African organisations are, however, still finding it difficult to adhere to the quality assurance Standards.

Kalbers and Fogarty (1995:76) report that “those auditors who believe most strongly in a set of internal auditing standards translate such beliefs into action”. A review of one of the key international professional practice journals of the internal audit profession, the Internal Auditor, offers the following statements by senior internal auditors on compliance with the Standards:

- “The purpose of the self-assessment is to determine if the audit team generally conforms with the Standards … even if a department fails to...
conform with one or two of the Standards, it could still achieve ‘general conformance’ with the Standards overall.” (Armanas 2007:56).

• “We all know that strict adherence to every standard probably will not necessarily add to our effectiveness or our value to the company.” (Johnston & Kirch 1996).

3.3 The use of quality assurance Standards by South African IAFs

Table 2 reflects the percentages of South African CAE respondents who replied positively to different sub-questions related to the implementation of a quality assurance and improvement program in accordance with AS1300. The main question posed to CAE respondents was: “Does your internal audit function have a quality assessment and improvement programme in place in accordance with Standard AS1300: Quality assurance and improvement programme?”.

In 2010 40% (2006: 44.65%) of South African CAE respondents reported that their IAFs had a QAIP in place at the time, while another 43.33% (2006: 29.95%) indicated that their IAFs planned to implement such a program within the following twelve months. The 2006 percentages of IAFs that reportedly had a QAIP in place or who planned to implement such a program within the following twelve months, creates the expectation that five years later, in 2010, more than 70% of CAE should have reported that their IAFs had a QAIP in place. On the contrary, in 2010 almost 5% fewer South African CAE respondents than in 2006 reported that their IAFs had a QAIP in place, which may point to the fact that IAFs are finding it difficult to implement QAIPs, or that the respondents were merely trying to save face by opting for the near-future implementation of a QAIP. The reasons for the difficulty to implement QAIPs should be further investigated.

The IIARF has expressed the view that the low level of full compliance with AS1300 reported by IAFs is a strong indicator that internal audit quality and the continuous improvement thereof are not being given sufficiently high priority by CAEs (IIARF 2010). AS1300 holds the CAE responsible for the implementation of an IAF’s QAIP. The indication that the percentage of IAFs that implemented a QAIP is declining, may imply that South Africa’s responding CAEs and their organisations’ governance structures possibly do not realise the importance of compliance with the Standards’ requirements on quality assurance. South African respondents’ audit committees and boards of directors should therefore be taking cognisance of the apparently negative trend in their organisations’ compliance with the quality assurance Standards, since their audit committees have the responsibility to have the effectiveness of their IAFs reviewed by appropriate independent quality reviews (IoD 2009:63). The latter finding may create the perception that audit committees of the responding organisations disregard their duties related to the oversight of internal audit activities. Cohen, Krishnamoorthy & Wright (2010:752) warn that audit committees should take care not to create the perception that they comply with corporate governance principles merely as a symbolic gesture while they fail to vigorously commit to all the related duties.

Table 2: Quality assurance and improvement programme

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>To be put in place within the next 12 months</td>
<td>29.95%</td>
<td>43.33%</td>
<td>21.79%</td>
<td>31.82%</td>
<td>22.33%</td>
<td>25.40%</td>
<td>23.41%</td>
</tr>
<tr>
<td>Yes, currently in place</td>
<td>44.65%</td>
<td>40.00%</td>
<td>31.35%</td>
<td>21.21%</td>
<td>42.72%</td>
<td>38.10%</td>
<td>35.97%</td>
</tr>
<tr>
<td>No plans to be put in place in the next 12 months</td>
<td>12.03%</td>
<td>10.00%</td>
<td>27.40%</td>
<td>28.79%</td>
<td>16.50%</td>
<td>20.63%</td>
<td>25.67%</td>
</tr>
<tr>
<td>The programme is not in accordance with Standard 1300</td>
<td>6.01%</td>
<td>6.67%</td>
<td>13.54%</td>
<td>6.06%</td>
<td>13.59%</td>
<td>15.87%</td>
<td>12.55%</td>
</tr>
<tr>
<td>I do not know</td>
<td>9.36%</td>
<td>0.00%</td>
<td>5.91%</td>
<td>12.12%</td>
<td>4.85%</td>
<td>0.00%</td>
<td>2.40%</td>
</tr>
<tr>
<td>Currently has QAIP of any kind in place</td>
<td>48.66%</td>
<td>46.67%</td>
<td>44.89%</td>
<td>27.27%</td>
<td>56.31%</td>
<td>53.97%</td>
<td>48.52%</td>
</tr>
</tbody>
</table>

Source: IIA SA (2012)

Table 3 reflects the percentages of CAE respondents that responded positively to the given components of QAIPs in response to the question: “For your internal audit function, which of the following is part of your internal audit quality assessment and improvement plan?” Respondents were requested to select all the components that they used as part of their QAIPs.

Table 3 further reflects that varying numbers of the 61 South African CAE respondents reported using each of the individual components of a QAIP. Review by an external party was the least applied component of the QAIP of South African IAFs: 22 out of 61 (36%) of South African CAEs reported that their IAFs were subject to external review. Most CAE respondents reported that their IAFs used engagement supervision: 43 out of 61 (70.5%) of South African CAEs reported that their IAFs use engagement supervision. 44 out of 61 (72.1%) of South African CAEs reported that their IAFs use working papers that supported their reports. The high levels of use of the last two components of QAIPs do facilitate an effective system of checks and balances during fieldwork, that should result in valid and well documented individual observations that contribute positively to the quality of the service delivered by IAFs to organisations and thus to the elevation of the status of the internal audit profession (Dogas 2011:56).
Table 4: Adequacy of guidance in Standards

<table>
<thead>
<tr>
<th>Standard / Region</th>
<th>South Africa 2006</th>
<th>South Africa 2010</th>
<th>Global</th>
<th>Africa (excl. SA)</th>
<th>UK &amp; Ireland</th>
<th>Australia</th>
<th>North America</th>
</tr>
</thead>
<tbody>
<tr>
<td>AS1000: Purpose, authority and responsibility</td>
<td>92.13%</td>
<td>98.25%</td>
<td>97.08%</td>
<td>96.00%</td>
<td>93.83%</td>
<td>96.88%</td>
<td>98.36%</td>
</tr>
<tr>
<td>AS100: Independence and objectivity</td>
<td>93.16%</td>
<td>94.74%</td>
<td>97.50%</td>
<td>95.92%</td>
<td>93.83%</td>
<td>98.44%</td>
<td>98.18%</td>
</tr>
<tr>
<td>AS1200: Proficiency and due professional care</td>
<td>91.24%</td>
<td>98.25%</td>
<td>96.58%</td>
<td>93.88%</td>
<td>95.00%</td>
<td>96.72%</td>
<td>98.52%</td>
</tr>
<tr>
<td>AS1300: Quality assessment and improvement – guidance regarded as adequate</td>
<td>82.76%</td>
<td>94.64%</td>
<td>83.06%</td>
<td>84.78%</td>
<td>83.95%</td>
<td>84.13%</td>
<td>85.97%</td>
</tr>
<tr>
<td>AS1300: Quality assessment and improvement – fully complied with</td>
<td>41.01%</td>
<td>44.62%</td>
<td>38.36%</td>
<td>39.41%</td>
<td>54.02%</td>
<td>49.15%</td>
<td>43.37%</td>
</tr>
<tr>
<td>PS2:000: Managing the internal audit activity</td>
<td>87.11%</td>
<td>100.00%</td>
<td>94.34%</td>
<td>96.00%</td>
<td>87.34%</td>
<td>93.44%</td>
<td>96.16%</td>
</tr>
<tr>
<td>PS2:000: Nature of work</td>
<td>85.51%</td>
<td>91.23%</td>
<td>92.21%</td>
<td>93.48%</td>
<td>88.61%</td>
<td>90.48%</td>
<td>94.31%</td>
</tr>
<tr>
<td>PS2:000: Engagement planning</td>
<td>88.76%</td>
<td>98.21%</td>
<td>93.54%</td>
<td>93.75%</td>
<td>92.50%</td>
<td>92.06%</td>
<td>96.52%</td>
</tr>
<tr>
<td>PS2:000: Performing the engagement</td>
<td>87.28%</td>
<td>94.64%</td>
<td>93.49%</td>
<td>95.65%</td>
<td>91.14%</td>
<td>91.94%</td>
<td>96.51%</td>
</tr>
<tr>
<td>PS2:000: Communicating results</td>
<td>91.07%</td>
<td>96.49%</td>
<td>95.51%</td>
<td>97.96%</td>
<td>87.50%</td>
<td>93.65%</td>
<td>96.68%</td>
</tr>
<tr>
<td>PS2:000: Monitoring progress</td>
<td>86.21%</td>
<td>96.49%</td>
<td>92.91%</td>
<td>95.83%</td>
<td>91.14%</td>
<td>88.71%</td>
<td>94.65%</td>
</tr>
<tr>
<td>PS2:000: Resolution of management’s acceptance of risk</td>
<td>82.71%</td>
<td>87.72%</td>
<td>83.72%</td>
<td>74.47%</td>
<td>78.75%</td>
<td>87.10%</td>
<td>91.11%</td>
</tr>
</tbody>
</table>

Source: IIA SA (2012)
Another question in the 2010 CBOK study obtained further evidence on reasons why organisations were not in full compliance with the quality assurance Standards. Table 5 reflects the number of CAE respondents in the 2010 CBOK study who selected each of a number of statements offered as the main reason why their organisations did not use external quality reviews as part of their QAIP.

Around 33% of South African CAE respondents selected the effectively opaque “Other” as the reason why their organisations did not comply with the requirement in the Standards to undergo an external review every five years (IIA 2010:6). Around 10% of the South African CAE respondents reported that the small size of their IAFs was the reason why their organisations did not have an external quality review, while another 10% of them indicated that the cost of reviews was the reason. Expert internal auditors advise that small IAFs that do not have full time quality assurance functions should still comply with the quality assurance Standards (Armanas 2007:56; Internal Auditor 2007:83), including external review. Armanas (2007:56) suggests that self-assessment with independent validation should be used as a lower cost option by small IAFs, while Weitzler (1995) suggests that peer groups be used as a less expensive alternative, especially peers from organisations in the same industry.

Table 5: Reasons for no external review

<table>
<thead>
<tr>
<th>Reasons</th>
<th>South Africa</th>
<th>Global</th>
<th>Rest of Africa (excl. SA)</th>
<th>UK &amp; Ireland</th>
<th>Australia</th>
<th>North America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>20</td>
<td>598</td>
<td>14</td>
<td>14</td>
<td>12</td>
<td>156</td>
</tr>
<tr>
<td>Audit shop is too small to comply with the Standards</td>
<td>7</td>
<td>459</td>
<td>6</td>
<td>12</td>
<td>11</td>
<td>138</td>
</tr>
<tr>
<td>Reviews are too expensive</td>
<td>6</td>
<td>439</td>
<td>4</td>
<td>11</td>
<td>6</td>
<td>126</td>
</tr>
<tr>
<td>Management/Audit Committee does not support such a review</td>
<td>2</td>
<td>404</td>
<td>5</td>
<td>13</td>
<td>10</td>
<td>108</td>
</tr>
<tr>
<td>There are too few local qualified reviewers</td>
<td>1</td>
<td>153</td>
<td>12</td>
<td>2</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>Reviews are too disruptive</td>
<td>1</td>
<td>109</td>
<td>0</td>
<td>5</td>
<td>2</td>
<td>38</td>
</tr>
<tr>
<td>I see no value in such a review</td>
<td>0</td>
<td>171</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: IIA SA (2012)

Although a small number of South African CAE respondents reported that a lack of management or audit committee support was the reason for an absence of external reviews as required by the Standards, (supporting the perception that compliance with this Standard is too costly), it may also be an indication of a lack of management support for compliance with the Standards. Management approves the internal audit budget and the audit committee should approve the internal audit plan (IoD 2009:63). In order to prevent conflict between internal auditors’ professionalism and the business organisation’s financial constraints (Hall 1968:103), the internal audit budget should make provision for costs related to compliance with the Standards while the internal audit plan should set out how compliance with the Standards will be incorporated into internal audit activities. Since the findings of the IIA’s 2010 stakeholder expectations survey reflected that internal audit stakeholders have a high regard for their IAFs’ compliance with the Standards (IIARF 2010) it would be useful to investigate the level of management support for compliance with the Standards and also any reasons that management may offer for not supporting such compliance.

The IIARF makes it clear that there are no acceptable reasons justifying an IAF’s not being in full compliance with AS1300, since the role of the CAE includes overcoming such challenges and bringing an IAF into full compliance with the Standards, in order to reflect and protect the professionalism of the IAF (IIARF 2010). The commitment, job satisfaction and quality of performance of professional employees of an organisation, like internal auditors, could be enhanced through support of their professional autonomy (Aranya & Ferris 1984:2; Shafer, Park & Liao 2002:47). Management can show support for the professional autonomy of internal auditors by minimising the impact of business decisions, for example those related to budgets, that may unavoidably result in violation of professional Standards by internal auditors. Weitzler (1995) declared almost two decades ago that internal auditors are challenged to find ways to ensure compliance with the quality assurance Standards in spite of budgetary constraints; this challenge is apparently still present. Armanas (2007:56) suggests that IAFs should actively communicate the objectives and the outcomes of external assessments to management, and should explain to management that the assessment will provide them and the audit committee with reassurance that the IAF provides a value-for-money service to the organisation. Management should be made aware that, since internal audit is regarded as part of the internal control environment, internal audit quality as evidenced by external review findings that the IAF complies fully with the Standards, may encourage external audit reliance on internal audit work and thus, as a consequence, achieve a reduction in external audit fees (Schneider 2009:48).

4 CONCLUSIONS, LIMITATIONS AND AREAS FOR FURTHER RESEARCH

This paper started with a literature review that explored the link between professionalisation and professional standards, and was followed by a discussion of strategies for overseeing compliance with professional standards. Next, the results of the 2010 CBOK study were used to describe the
perceptions of South African CAE respondents of three aspects related to compliance with professional standards, namely their organisations’ level of full compliance with the Standards as a whole, the IAFs’ use of the quality assurance Standards, and reasons why their IAFs did not comply with the Standards. Data obtained as part of the 2010 CBOK study of the IIARF (2010) was used (with permission) as the source of the results described. The South African results within the 2010 CBOK study (IIARF 2010) were contextualised by the provision of comparative data obtained from South African CAEs responding to the 2006 CBOK study, together with comparative data obtained in the 2010 CBOK study from CAEs from the rest of the world (“global” category), the rest of Africa (excluding South Africa), the UK and Ireland, Australia, and North America. The balance of the CBOK 2010 data from the other regions was not discussed in this paper, it being left for future academic researchers to pursue.

The results of the 2010 CBOK study (IIARF 2010) indicate that just more than half of the responding South African CAEs report that their organisations were in full compliance with the Standards as a whole, while only two thirds of their IAFs were reportedly in full compliance with the quality assurance Standard, AS1300. A smaller percentage of South African CAEs reported full compliance with AS1300 by their IAFs in 2010 than in 2006. Around 40% of responding CAEs in the 2010 CBOK study reported that their IAFs had a QAIP in place, while only approximately half of them reported that review by an external party was part of their QAIPs. Further research should be conducted to investigate why IAFs found it difficult to implement a QAIP that complies with the Standards.

The low percentage of South African CAEs that reported full compliance with AS1300 was not caused by a lack of guidance for this Standard as almost 95% of South African CAE respondents shared the perception that this Standard did contain adequate guidance. Further research should be conducted to determine why IAFs were not complying with AS1300 despite the fact that the Standard was considered to contain adequate guidance. The small size of their IAF and the cost of a QAIP were indicated by CAE respondents as reasons why they were not in full compliance with the Standards in the 2010 CBOK study, while some attributed it to a lack of management support for full compliance with the Standards. The fact that there is a definite relation between these reasons for not complying fully with the Standards, indicates that further research should be conducted to clarify the reasons for this. Further research should also establish what reasons, other than those listed in the questionnaire, caused the Standards not to be complied with in full by a third of responding CAEs who indicated that “other” reasons caused their IAFs’ non-conformance with the Standards.

Goode (1957:198) asserted more than five decades ago that when professionals are perceived to be failing to live up to the professional obligations expected of them by society, the profession will lose prestige. He suggested that the professional institution could prevent this loss of status through measures directed towards control over practicing professionals. The IIA and internal auditors may be able to achieve greater recognition for the internal audit profession through strategies that extend full compliance with the Standards, including AS1300 to an increasing number of IAFs.

This paper has various limitations. Firstly, the paper uses data collected as part of the 2010 CBOK research project, and as such the authors were not able to test its accuracy. Secondly, the small number of South African CAEs that participated in the 2010 CBOK study prevents generalisation or extrapolation of the results described to all South African IAFs. Thirdly, the 2010 CBOK study addressed internal auditing in general and did not focus exclusively on obtaining detailed data specific to IAFs’ compliance with the Standards. This suggests that more specific information, also from audit committee chairpersons and management, should be obtained by future studies to provide a more comprehensive understanding of IAFs’ use of and compliance with the Standards. Fourthly, this paper did not describe the corresponding 2010 CBOK data for the other regions.

REFERENCES


Professionalism apparent from South African internal audit functions’ use of the Standards


Institute of Internal Auditors (IIA), The. 2010. International standards for the professional practice of internal auditing. Alamonte Springs, FL: IIA.


