

## A framework for the evaluation of the perceived value added by internal auditing

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<b>Authors:</b>	Lise Botha & Naomi Wilkinson
<b>Corresponding author:</b>	Lise Botha <a href="mailto:bothal@cput.ac.za">bothal@cput.ac.za</a>
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## **A framework for the evaluation of the perceived value added by internal auditing**

**Lise Botha**

(Corresponding author)

Department of Internal Auditing and Financial Information Systems

Faculty of Business and Management Sciences

Cape Peninsula University of Technology

Cape Town

South Africa

Phone: +27214603684

Email: [bothal@cput.ac.za](mailto:bothal@cput.ac.za)

**Naomi Wilkinson**

University of Pretoria

Department of Auditing

Private Bag X20, Hatfield, 0028, Pretoria, Gauteng, South Africa

Phone: +27124205324

Email: [naomi.wilkinson@up.ac.za](mailto:naomi.wilkinson@up.ac.za)

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## **Abstract**

**Purpose** – This study proposes a framework for the evaluation of the perceived value internal audit functions add to their organisations. The framework is based on service quality measurement principles, specifically SERVPERF which is applied to internal auditing.

**Design/Methodology/Approach** – Insights obtained from the literature on internal auditing and service quality disciplines, were synthesised to identify and structure value-adding attributes of internal auditing. A thematic analysis of published profiles (by Protiviti) of various organisations' internal audit functions were analysed and evaluated against those attributes identified in the literature to formulate an evaluation framework based on service quality measurement principles.

**Findings** – The identified value-adding attributes were categorised according to the dimensions of the SERVPERF service quality measurement instrument in order to formulate a framework for evaluation of the value added by internal audit functions. It was found that the SERVPERF dimensions appear to be relevant to internal auditing. The SERVPERF instrument was therefore adapted to evaluate the value added by internal auditing as a service.

**Practical implications** – This paper contributes to both the theory and practice of internal auditing by proposing formal dimensions of a value-adding internal audit service which can then serve as a reference point from which to evaluate the value added to an organisation. The framework can serve as a starting point for internal audit functions to develop their service offering and/or form the foundation of stakeholder satisfaction surveys.

**Originality/value** – The study contributes to the literature by applying service quality principles to internal auditing. A holistic framework that can be used for the evaluation of the value added by internal audit functions based upon stakeholder perceptions is proposed. The framework juxtaposes attributes of value adding internal auditing with recognised service quality performance measures. The notion of value-added is investigated to better understand the concept in the context of internal auditing services.

**Keywords** – Internal auditing, Perceived value added, Value-adding service, Service quality, SERVPERF, Qualitative research.

**Paper type** – Research paper

## 1. Introduction

*Value added* is a concept at the heart of the internal audit profession. The ability to add value and provide support to stakeholders<sup>1</sup> forms the premise of internal audit activities (Sarens and De Beelde, 2006a; Sarens *et al.*, 2009; Lenz and Hahn, 2015; IIA, 2017). However, the full meaning of value added in the context of internal auditing and whether the profession is perceived to be value-adding remains uncertain (Lenz *et al.*, 2018).

The Institute of Internal Auditors (IIA), the professional authority on internal audit practice, defines value-adding internal audit functions as those that provide: "... objective and relevant assurance ..." (IIA, 2017:21). However, prior researchers propose more concrete measures to evaluate the "value-added" notion: Elliott *et al.* (2007) and Mihret and Woldeyohannis (2008) argue that value-added is measured through monetary gains or cost savings. In contrast, Roth (2003), PwC (2014), Sarens *et al.* (2016) and Lenz *et al.* (2018) recognise that value-added is not necessarily monetary in nature but is rather an assurance that stakeholder expectations have been met. Sarens *et al.* (2016) further propose that *value-added* is subjective in nature, due to its close correlation with stakeholder perceptions. This subjective nature has been confirmed by various authors who emphasise the importance of stakeholder perceptions of internal auditing (Arena and Azzone, 2009; Lenz and Hahn, 2015; PwC, 2016; Sarens *et al.*, 2016; Witzany and Harrington, 2016; Lenz *et al.*, 2018; Eulerich *et al.*, 2019).

These propositions in the internal auditing literature correspond with findings in the service quality and external auditing literature, where stakeholder (customer) satisfaction has been found to influence the perceived value added by a service (Cronin and Taylor,

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<sup>1</sup> Internal audit stakeholders are deemed to be the shareholders, the audit committee, the board of directors, senior management, auditees, external auditors and other assurance providers within the organisation.

1992; Ostrom and Iacobucci, 1995; Craswell and Francis, 1999; Cronin *et al.*, 2000; Watkins *et al.*, 2004; Van Thiel and Van Raaij, 2017).

The evaluation of stakeholder satisfaction also forms an integral part of an internal audit function's Quality Assurance and Improvement Program (QAIP) (IIA, 2012). To determine stakeholder satisfaction, prior studies have proposed that structured criteria (or performance measures) for evaluating value added are necessary (Soh and Martinov-Bennie, 2011; IIARF, 2015; Wood, 2016). Measures previously proposed as appropriate to evaluate effectiveness and value added focussed on quantitative measures and include the rate at which the audit plan is completed, and the rate of implementation of audit recommendations (Mihret and Woldeyohannis, 2008; IIARF, 2011; IIARF, 2015). These measures are focussed on efficiency of the internal audit function and omitted stakeholder perspectives. Further guidance on how to evaluate value added by internal auditing, considering stakeholder perspectives, is needed (IIARF, 2015). This need is amplified by the subjective nature of value added, and the need for further research into the perceptions of stakeholders (Sarens and De Beelde, 2006a; D'Onza *et al.*, 2015; Lenz and Hahn, 2015; Kidron *et al.*, 2016). Even though different stakeholders<sup>2</sup> may hold contrasting expectations of how value can be added by the internal audit function (Lenz and Hahn, 2015; Erasmus and Coetzee, 2018; Lenz *et al.*, 2018), an unanswered question remains: how can the perceived value added by internal auditing be evaluated?

In support of the need for a performance measure that combines various stakeholder perspectives and follows a broad evaluation base, the most recent CBOK report on value added has identified a misalignment between value-adding activities, stakeholder perspectives and current performance measures employed (IIARF, 2015). Even though various studies have discussed the value-adding attributes and/or activities of internal audit functions (Bou-Raad, 2000; Roth, 2003; Sarens and De Beelde, 2006a; Mihret and Woldeyohannis, 2008; Barac *et al.*, 2009; Mihret *et al.*, 2010; IIARF, 2011; Decaux and Sarens, 2015; D'Onza *et al.*, 2015), a holistic framework for evaluating value added has

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<sup>2</sup> Prior literature has confirmed that various internal audit stakeholders have contrasting expectations and needs (Erasmus and Coetzee, 2018; Eulerich *et al.*, 2019). For example, the audit committee may value a compliance and assurance focus of the internal audit function whereas management may want the internal audit function to consult on operational matters and business improvement.

not yet been proposed. Lenz *et al.* (2018) specifically call for qualitative research on the characteristics of value-adding internal audit functions. Such a framework could draw together various value-adding attributes and stakeholder perceptions and could at the same time serve as a performance instrument for value added.

This study proposes such a framework by examining the notion of value added by internal audit functions. An attempt is made to provide further insights into the evaluation of value added by proposing a framework that is based on service quality measurement principles. The framework proposed provides a general evaluation base for value-adding internal auditing, which can be applied and amended in practice in accordance with specific stakeholder needs. This study thus has both theoretical and practical implications. Insights into the notion of value added, will contribute to both theory and practice by constructing dimensions of a value-adding internal auditing service which can serve as a point of departure in evaluating the value added by specific internal audit functions. This is also the first application of SERVPERF to internal auditing that the authors are aware of.

The remainder of this paper is structured as follows: a synthesis of literature reviewed is discussed followed by the methodology section. Thereafter, the research findings are presented in the form of a framework. In the final section the limitations and areas for further research are presented, and conclusions discussed.

## **2. Literature Review**

The literature review was structured by considering the value-added notion in general, then focussing on specific value-adding attributes of internal auditors and internal audit functions. This was followed by investigating methods proposed in prior studies to evaluate value added, after which service quality literature and the applicability of SERVQUAL and SERVPERF to internal auditing is discussed.

### *2.1. Value-added notion*

Internal auditing's purpose is to "add value and improve an organisation's operations", and to assist management and the board in the execution of their responsibilities (D'Onza

*et al.*, 2015; IIA, 2017). However, uncertainty exists as to what “adding value” entails (Lenz *et al.*, 2018). Some argue that value added is quantifiable in monetary terms, that it is value that is added to the business through gains in effectiveness and efficiency, or in cost savings (Elliott *et al.*, 2007; Mihret and Woldeyohannis, 2008). In contrast, PwC (2014) recognises that internal auditing’s value is stakeholder-specific and determined by perceptions: every stakeholder formulates their own perception of the value that internal auditing is (or should be) able to provide (Sarens *et al.*, 2016). Therefore, it is the expectations and perceptions of internal audit’s stakeholders that determines if value has been deemed to be added or not.

This aligns with the views expressed in the literature on service quality; where Ostrom and Iacobucci (1995) discuss the similarities between customer satisfaction and the perceived value of services. They suggest that both “customer satisfaction” and “value” are determined by the comparison between the cost of a service and its benefits. Cronin *et al.* (2000) build upon the previous study by investigating the relationship between customer satisfaction, perceived value and the quality of services. They assert that customer experiences (essentially, their satisfaction or dissatisfaction with the outcome of a service) could influence the perceived value added by the service. In an earlier study, Cronin and Taylor (1992) suggest that customer perceptions and satisfaction are not necessarily influenced by the actual service quality, but rather by the perceived value of the service. This was confirmed by Watkins *et al.* (2004) who suggest that external audit quality is a composite of both actual and perceived audit quality. Craswell and Francis (1999) further posit that the perceived quality of an audit is the sum of the various and repeated experiences of the audit stakeholders. They reason that the perceived quality of audit work can be measured through conducting customer satisfaction surveys to determine the perceived value added by the audit. The degree or level of stakeholder satisfaction is thus directly influenced by stakeholders’ perceptions of added value.

From an internal auditing perspective, Roth (2003) supports the proposition that stakeholders’ experiences will determine whether value has been added or not. He adds that internal auditors should persuade their clients of the value that can be added by rendering a better-than-expected quality service; this is especially effective if client

expectations are low. Improved communication, with the objective of managing stakeholder expectations, will also contribute to improved perceptions of value added (Sarens and De Beelde, 2006b). Thus, the perceived value added is not necessarily the direct result of the actual quality of the service, but it carries weight from a customer satisfaction point of view (Cronin and Taylor, 1992; Ostrom and Iacobucci, 1995; Cronin *et al.*, 2000). Consequently, if the stakeholders are satisfied with their experience during the internal audit, the stronger the perception will be that a quality service has been provided, and thus the stronger the perception that significant value has been added by the audit.

Van Thiel and Van Raaij (2017) suggest that customer experiences are not only determined by the outcomes of the service, but also by the systems and processes used to render the services. These findings reiterate that it is important to look at services holistically to evaluate value added by these services and not only at the outcomes of the service. Outcomes, in the case of an internal audit, would, for example, be the findings and recommendations report, and/or the percentage of the audit plan completed in the allotted timeframe.

To better understand which factors, contribute to the perception that value was added by internal audit, the next section provides the results of the literature synthesis on the attributes of a value-adding internal audit function and auditors.

## *2.2. Value-adding internal audit attributes*

The value-adding attributes and activities of internal auditors and internal audit functions, as synthesized from the literature reviewed, are summarised in Table 1 below. Each value-adding attribute were analysed and then grouped into overarching themes. The overarching themes gave a distilled view of the type of attributes value-adding internal audit functions need to have. A brief overview of these themes is discussed in the next paragraph, with details of each theme and attribute provided in Table 1.

Internal audit functions were found to add value when they align their activities to organisational objectives and follow a risk-based audit approach (Bou-Raad, 2000; Roth,

2003; Allegrini *et al.*, 2006; Mihret and Woldeyohannis, 2008; Barac *et al.*, 2009; D'Onza *et al.*, 2015; PwC, 2016; Witzany and Harrington, 2016; Eulerich *et al.*, 2019). The ability of an internal audit function to be flexible in its service offering is deemed value-adding, by providing both assurance and consulting services on financial and non-financial information (Bou-Raad, 2000; Roth, 2003; Mihret and Woldeyohannis, 2008; Soh and Martinov-Bennie, 2015; Witzany and Harrington, 2016). Compliance with the IIA's standards and code of ethics were identified as a value driver by several studies (Barac *et al.*, 2009; D'Onza *et al.*, 2015; IIA, 2017; Lenz *et al.*, 2018; Eulerich *et al.*, 2019). Internal audit functions which can offer assurance services in a broad range of business areas has become increasingly important (Bou-Raad, 2000; Roth, 2003; Jayalakshmy *et al.*, 2005; Sarens and De Beelde, 2006a; Arena and Azzone, 2009; Barac *et al.*, 2009; Mihret *et al.*, 2010; IIA, 2011a; Soh and Martinov-Bennie, 2011; D'Onza *et al.*, 2015; Witzany and Harrington, 2016; Carcello *et al.*, 2018; Eulerich *et al.*, 2019). This includes areas other than traditional compliance and financial audits, for example: business process improvement, fraud detection and playing an educational role within the organisation. Some studies have highlighted that building relationships with management, the audit committee and auditees as well as other assurance providers are valued (Bou-Raad, 2000; Wood, 2004; Decaux and Sarens, 2015; Lenz *et al.*, 2018). While the importance of building relationships is highlighted in the literature at the same time researchers have emphasised the importance of the internal audit function being independent and objective to fulfil its role as an assurance provider (Bou-Raad, 2000; IIA, 2011; D'Onza *et al.*, 2015; Witzany and Harrington, 2016; IIA, 2017; Jiang *et al.*, 2018; Lenz *et al.*, 2018; Eulerich *et al.*, 2019). Other studies have highlighted the importance of the internal audit function having a service orientation, in part to build relationships but also to prevent being seen by auditees as policing (Roth, 2003; Barac *et al.*, 2009; PwC, 2016). The technical competency and diverse skill-set (including soft skills, familiarity with technological advancements and ability to analyse big data) of the internal audit team members were identified as important to add value (Smith, 2005; Fourie, 2008; Protiviti, 2015; Dzurani and Mălăescu, 2016; PwC, 2016; IIA, 2017; Jiang *et al.*, 2018; PwC, 2018). Also, of importance is internal auditors' communication skills, including the ability to listen to auditees, management and the audit committee, in order to remain responsive (Smith, 2005; Fourie, 2008; Mungal and Slippers, 2015; Lenz *et al.*, 2018). Applying the correct

level of professional scepticism in order to provide the correct level of assurance is seen as imperative (McCoy *et al.*, 2011). Lastly, value-adding internal audit functions are informative and produce reports and presentations of good quality that decrease information asymmetry within the organisation (Kachelmeier and Shehata, 1997; Smith, 2005; Goodwin-Stewart and Kent, 2006; Fourie, 2008; Sarens *et al.*, 2009; Mungal and Slippers, 2015; Eulerich *et al.*, 2019).

Although the value-adding role of internal auditing has been recognised, it would be overly optimistic to claim that internal auditing always adds value (PwC, 2016; Sarens *et al.*, 2016). Current literature indicates that efforts to add value are routinely compromised by high staff turnover; audit staff's low skill-set (or the complete lack thereof) as well as being detrimentally affected by the rapidly changing business environment (Bou-Raad, 2000; Roth, 2003; Allegrini *et al.*, 2006; Mihret and Woldeyohannis, 2008; Coetzee *et al.*, 2010; Soh and Martinov-Bennie, 2015; PwC, 2017).

As the scope of internal auditing grows, the internal auditors' skill-set and scope of required expertise needs to grow in parallel in order for the function to remain aligned with organisational needs (PwC, 2016; Jiang *et al.*, 2018). Unsurprisingly, competence is a core principle in the IIA's Code of Ethics (IIA, 2017). To remain relevant with current trends, internal auditors should routinely assess and address their competency. In addition, it is also incumbent on management to ensure the internal audit function recruits staff with the appropriate skill-set in support of efforts to remain relevant (PwC, 2016).

Specific activities and attributes of internal audit functions are thus identifiable as resulting in value-adding services. In the next section it is considered whether the attributes as described in Table 1 can serve as criteria for evaluating value added, through a review of both internal auditing and services quality literature.

**Table 1 – Summary: literature synthesis on value-adding attributes**

Overarching attribute theme	Description of specific attributes	Sources
Alignment	Value-adding internal audit functions partner with management to ensure that organisational objectives, be it financial, strategic, control <i>et cetera</i> , are reached.	Eulerich <i>et al.</i> (2019:2); PwC (2016:3); Barac <i>et al.</i> (2009:981); Mihret and Woldeyohannis (2008:583); Allegrini, D'Onza, Paape, Melville and Sarens (2006:850); Roth (2003:36); Bou-Raad (2000:182).
	Following a risk-based audit approach has been found to result in value-adding activities.	PwC (2016:4); Witzany and Harrington (2016:2); D'Onza <i>et al.</i> (2015:184); Barac <i>et al.</i> (2009:986); Mihret and Woldeyohannis (2008:583); Roth (2003:36).
Flexibility	Depending on the objectives of the organisation, both assurance and consulting internal audit services have been found to be value adding.	Witzany and Harrington (2016:2); Mihret and Woldeyohannis (2008:583); Roth (2003:37); Bou-Raad (2000:183).
	Internal audit functions can add value by providing assurance on financial and non-financial (for example social and environmental) information.	Soh and Martinov-Bennie (2015:100).
Compliance with the Standards	Compliance with the IIA's Standards and Code of Ethics was identified as a driver of effectiveness – effective internal audit functions have been found to be value adding. The Code of Ethics requires of internal auditors to abide by the principles of objectivity, integrity, competency and confidentiality.	Eulerich <i>et al.</i> (2019:2); Lenz <i>et al.</i> (2018:12); D'Onza <i>et al.</i> (2015:192); Barac <i>et al.</i> (2009:987); (IIA, 2017).
Scope of services	Historically, internal audit functions focussed their activities on compliance and financial auditing. However, to add value, internal audit functions are encouraged to broaden their scope of services.	Arena and Azzone (2009:44); Bou-Raad (2000:183).

Overarching attribute theme	Description of specific attributes	Sources
	Business process improvement audits result in tangible benefits for organisations, which can be measured through cost savings or an increase in revenue.	Witzany and Harrington (2016:8); Soh and Martinov-Bennie (2011:554); Mihret <i>et al.</i> (2010:225); Barac <i>et al.</i> (2009:982); Sarens and De Beelde (2006a:238); Roth (2003:37).
	Evaluation of risk management, controls and governance processes are core internal audit activities, but have been found to add value if executed efficiently.	Eulerich <i>et al.</i> (2019:2); Witzany and Harrington (2016:7); D'Onza <i>et al.</i> (2015:188); Barac <i>et al.</i> (2009:987); Sarens and De Beelde (2006a:238).
	Internal audit functions can add value through fraud detection.	Jayalakshmy <i>et al.</i> (2005:251).
	Internal auditors' role as educator of management and staff was identified as a role that should be developed to strengthen its value-proposition.	Eulerich <i>et al.</i> (2019:2); Carcello <i>et al.</i> (2018); IARF (2011a:21); Roth (2003:37); Bou-Raad (2000:184).
Relationship	Internal auditors have been found to add value when they take the lead in executing combined assurance initiatives. Participating with other assurance providers may also lead to cost savings for the organisation.	Lenz <i>et al.</i> (2018:32); Decaux and Sarens (2015:76); Wood (2004:3).
	Facilitating control self-assessments ensures auditee participation and results in value-adding recommendations.	Bou-Raad (2000:183).
Independent and objective	Independence and objectivity of the internal audit function were found to be key enablers to provide assurance and to add value.	Eulerich <i>et al.</i> (2019:2); Jiang <i>et al.</i> (2018); Lenz <i>et al.</i> (2018:24); IIA (2017:3); Witzany and Harrington (2016:10); D'Onza <i>et al.</i> (2015:190); IARF (2011:3); Bou-Raad (2000:184).
Service-orientated	Internal auditors and internal audit functions which emphasise service excellence were found to add value.	PwC (2016:10); Barac <i>et al.</i> (2009:983); Roth (2003:34).

Overarching attribute theme	Description of specific attributes	Sources
Technically competent and soft skills	To add value, internal auditors should have a diverse skillset with requisite technical competencies and soft skills, complimentary to the organisation's operations.	Jiang <i>et al.</i> (2018); IIA (2017:6); PwC (2016:7); Fourie (2008:68); Smith (2005:517).
	Internal audit functions that utilise and are familiar with the latest technological advancements are deemed to be value-adding. Technology and data analytics should be leveraged to optimise internal audit processes and assessments.	PwC (2018); Dzurainin and Mălăescu (2016:8); PwC (2016:9); Protiviti (2015:2).
Responsive	Value-adding functions' communication are continuous, clear and adaptive. They listen to the needs and requests of the audit committee and management.	Lenz <i>et al.</i> (2018:32); Mungal and Slippers (2015:69); Fourie (2008:74); Smith (2005:515).
Professional scepticism	Value-adding internal audit functions apply the correct level of professional scepticism to provide the correct level of assurance.	McCoy, Burnett, Friedman and Morris (2011:4).
Informative	Reporting and activities of value-adding functions decrease information asymmetry within the organisation and provide comfort and confidence to management.	Eulerich <i>et al.</i> (2019:2); Sarens <i>et al.</i> (2009:91); Goodwin-Stewart and Kent (2006:85); Kachelmeier and Shehata (1997:411).
	Value-adding functions' reports are of quality, clear and contains practical recommendations. Presentations made by internal audit functions are clear, informative and professional.	Mungal and Slippers (2015:69); Fourie (2008:74); Smith (2005:515).

### *2.3. The need for evaluation of value added*

From the previous sections, one can conclude that stakeholders can at least to some extent, evaluate perceived value added by internal auditing. However, the need for a structured evaluation method is supported by the disparity between internal auditors' own perceptions of their abilities to add value (IIARF, 2011) and the perceptions of the wider circle of internal audit's stakeholders (PwC, 2016; PwC, 2017). Internal auditors have been found to consider themselves to add more value than their stakeholders perceive them to do (IIARF, 2011; PwC, 2016). Furthermore, a misalignment between value-adding activities, stakeholder perspectives and current measures to evaluate internal audit functions' performance has been identified (IIARF, 2015). The question is therefore whether an evaluation can be performed in a sufficiently structured manner to provide reliable and valid feedback to internal auditors, by their stakeholders, that will enable them to promptly institute improvements, if needed. The next section considers service quality literature for the purpose of identifying possible evaluation models, that can be used to evaluate value added.

### *2.4. Service quality evaluation methods: SERVQUAL and SERVPERF*

In the services quality literature perceived value is generally accepted as being influenced by the user's perceptions of service quality, and the sacrifices that the consumer makes to obtain the service (Cronin *et al.*, 1997; Cronin, 2016). Evaluation of service quality therefore forms part of the value construct and can serve as a basis for structuring a framework in order to assess the value added by internal auditing.

The service quality literature reveals a variety of models to evaluate service quality, including attribute models and multi-level hierarchical models. However, most studies are based on SERVQUAL (or variants of SERVQUAL, such as SERVPERF) (Brandon-Jones and Silvestro, 2010; Roy *et al.*, 2015). Thus, the body of research is essentially divided between gap-analysis models (based on SERVQUAL), and performance-only models, such as SERVPERF. The SERVPERF model was based on the adequacy importance theory, while SERVQUAL (a gap model) emerged from expectation disconfirmation

theory (Cronin and Taylor, 1992; Roy *et al.*, 2015). These two instruments will be considered to determine its suitability to internal auditing services.

The SERVQUAL instrument (Parasuraman *et al.*, 1988), and as later simplified as the RATER instrument (Parasuraman *et al.*, 1991), are considered within the service quality literature as a valid instrument to measure service quality (Zeithaml *et al.*, 2009; Roy *et al.*, 2015). For example, Chang and Huang (2016) specifically use the SERVQUAL dimensions in their model to evaluate service experiences. This instrument consists of the following dimensions: reliability, assurance, tangibles, empathy and responsiveness (Parasuraman *et al.*, 1991). Table 2 below provides a description of each dimension as presented by Parasuraman *et al.* (1991) and by Cronin and Taylor (1992).

**Table 2 – SERVPERF dimensions and criteria**

<b>SERVPERF dimensions (as defined in Parasuraman <i>et al.</i> (1991:23))</b>	<b>SERVPERF dimensions detailed criteria (Cronin &amp; Taylor, 1992:65-68; Parasuraman <i>et al.</i>, 1991:448-449)</b>
<p><b>Responsiveness:</b> Willingness to help customers and provide a prompt service.</p>	<ul style="list-style-type: none"> <li>▪ Tell you exactly when services will be performed.</li> <li>▪ Give prompt service.</li> <li>▪ Are always willing to help.</li> <li>▪ Never too busy to respond to your requests.</li> </ul>
<p><b>Assurance:</b> Knowledge and courtesy of employees and their ability to inspire trust and confidence.</p>	<ul style="list-style-type: none"> <li>▪ The behaviour of employees instils confidence.</li> <li>▪ You feel safe in transactions with them.</li> <li>▪ Employees are consistently courteous with you.</li> <li>▪ Employees have the knowledge to answer your questions.</li> </ul>
<p><b>Tangibles:</b> Physical facilities, equipment and appearance of personnel.</p>	<ul style="list-style-type: none"> <li>▪ Has modern looking equipment.</li> <li>▪ Physical facilities are visually appealing.</li> <li>▪ Employees are neat-appearing.</li> <li>▪ Materials associated with the service are visually appealing.</li> </ul>
<p><b>Empathy:</b> Caring, individualised attention the firm provides to its customers.</p>	<ul style="list-style-type: none"> <li>▪ Gives you individual attention.</li> <li>▪ Operating hours convenient to all customers.</li> <li>▪ Employees who give personal attention.</li> <li>▪ Has your best interests at heart.</li> <li>▪ Employees understand your specific needs.</li> </ul>

SERVPERF dimensions (as defined in Parasuraman <i>et al.</i> (1991:23))	SERVPERF dimensions detailed criteria (Cronin & Taylor, 1992:65-68; Parasuraman <i>et al.</i> , 1991:448-449)
<p><b>Reliability:</b> Ability to perform the promised service dependably and accurately.</p>	<ul style="list-style-type: none"> <li>▪ When promises to do something by a certain time, they do so.</li> <li>▪ When you have a problem, shows sincere interest in solving it.</li> <li>▪ Performs the service right the first time.</li> <li>▪ Provides its services at the time it promises to do so.</li> <li>▪ Insists on error-free records.</li> </ul>

SERVQUAL has already been applied to a variety of industries, specifically to measure service quality from a customer perspective (Ismail *et al.*, 2006; Kim-Soon *et al.*, 2014; Roy *et al.*, 2015). In addition, other studies have applied this instrument to determine the quality of external audits (Ismail *et al.*, 2006; Butcher *et al.*, 2013). Since this model has been specifically created for the assessment of services whose quality is not easily determinable (and is at best subjective), the similarity with internal auditing’s attributes makes the application of SERVQUAL’s dimensions a useful exercise.

Although, the SERVQUAL instrument was developed to evaluate external services, i.e., services rendered by an organisation to external customers, the validity of this measure to assess the quality of internal services has subsequently been confirmed by Kang *et al.* (2002). (Internal services are services provided within the organisation amongst departments and functions (Kang *et al.*, 2002).) They empirically tested each dimension of SERVQUAL to confirm its applicability to internal services. Examples of these internal services include human resources activities, the information system and information technology function, as well as the internal audit function.

The SERVQUAL instrument has, however, been criticised (Cronin and Taylor, 1992; Jiang *et al.*, 2012). Most of this criticism has been levelled at the original SERVQUAL method that required the performance of a gap analysis for each of the five dimensions, to determine the difference between a customer’s expectations and perceptions of service

performance (Cronin and Taylor, 1992; Jiang *et al.*, 2012). It is particularly the practicality and validity of measuring customer expectations that have been questioned by various authors (Brandon-Jones and Silvestro, 2010; Roy *et al.*, 2015). Cronin and Taylor's (1992) response is that despite the questioning of this gap analysis, the actual dimensions driving the instrument are valid, and that it has been supported in the literature. This criticism led to the development of SERVPERF, which comprises of the same dimensions, but with a narrower focus, measuring only the perceptions of performance, without the gap analysis component (Cronin and Taylor, 1992). In developing the SERVPERF model Cronin and Taylor (1992) recognised the importance of perceived value on the perceptions of service quality. Perceived service quality and perceived value added were then later found to be related constructs (Cronin *et al.*, 1997; Zeithaml *et al.*, 2009; Roy *et al.*, 2015).

Brandon-Jones and Silvestro (2010) found that the measuring of internal service quality using SERVPERF leads to slightly more reliable and valid results, than those emerging from SERVQUAL. As it is proposed, in this paper, to apply the SERVQUAL dimensions only to conceptualise and structure the criteria for assessing internal auditing's value-adding abilities, the implications of a gap analysis will therefore not be considered. Also, seeing that internal audit's stakeholders' expectations vary greatly (and may often be diametrically opposite), a performance-only measure such as SERVPERF was preferred over other models for the current study. Thus, for the purposes of this paper SERVPERF, which places an emphasis on perceived value, is deemed preferable to SERVQUAL or any other of the measurement bases.

### *2.5. Evaluation of value added by internal auditing*

Prior studies assessing the effectiveness of internal audit aver that it is difficult to assess the extent of the value that internal auditing has been able to add, and that more consistent performance measures are needed (Soh and Martinov-Bennie, 2011). Thus, one dimension of the value internal auditing is able to add could simply be the psychological comfort and support its presence provides to the audit committee and management. This line of thought is in line with the empathy, reliability and assurance dimensions of SERVPERF. This is also in line with Cronin's (2016) suggestion that value

may be a latent construct, influenced by the customer's perceptions of the service as a balance between benefits and sacrifices.

There are lines of thought in the literature that propose that internal audit effectiveness could be measured by considering explicit performance measures. These measures could be linked to the tangibles and responsiveness dimensions of SERVPERF. For example, Elliott *et al.* (2007) recommend employing an evaluation of whether benefits and savings have materialised, rather than using the degree of audit plan completion as a performance measure. They further propose a method of constant impact analysis throughout the audit. Elsewhere, a case study by Mihret and Woldeyohannis (2008) identified that the rate of implementation of internal audit's suggestions for improvement can be used to measure internal audit's effectiveness and value added. In a later study, Mihret *et al.* (2010) propose a theoretical framework which argues that internal audit effectiveness can be linked to organisational performance. This framework suggests that the financial performance measure, return on capital employed (ROCE), can serve as an indication of internal audit's effectiveness. The problem with this method is that it limits internal auditing's capacity to add value only to financial measures and the organisation's performance. There is also the risk of assuming a cause-and-effect relationship based on correlation alone. For example, a loss-making organisation would not have a high ROCE; however, that does not necessarily imply that the internal audit function was ineffective. Thus, the internal audit function could have made recommendations for improvements to efficiency, or to limit losses, or could have detected fraudulent activities. These activities would be value-adding but would not be reflected in the organisation's current year financial returns. Considering SERVPERF's holistic view of service quality, the explicit measures mentioned above will only evaluate one dimension of service quality, such as the tangibles dimension, whereas the assurance, empathy, reliability and responsiveness dimensions should also be considered to evaluate stakeholder perceptions more accurately.

Consequently, it is proposed that in order to evaluate the perceived value added by internal auditing, one should consider (in line with the SERVPERF dimensions) the level of empathy, responsiveness and reliability of the internal audit function. Also, the level of

assurance provided by and the tangibles delivered through the efforts of internal audit should be considered. This means that the value added by internal auditing can be evaluated by explicit and implicit performance measures, which are not necessarily linked to specific cost savings or to a demonstrable increase in revenue.

### **3. Methodology**

The methodology followed in this paper is qualitative in nature and comprised of a literature review and a thematic analysis on secondary data. The disciplines of internal auditing and service quality are linked in this paper to shed new light on the notion of value-adding internal auditing. This integration of knowledge areas and disciplines in order to develop current understanding of concepts is encouraged (Llewelyn, 2003; Yadav, 2010; Watts, 2011; Gilson and Goldberg, 2015).

The conceptualisation of value-adding internal auditing was supported by a thorough literature search on value-adding as it applies to internal auditors, internal audit functions and their various activities. Recurring themes related to the attributes of value-adding internal audit functions and internal auditors were identified. To provide context and structure to these themes, the dimensions of the SERVPERF service quality evaluation instrument (refer to Table 2 in the literature review section) was used to categorise these attributes to form an evaluation instrument unique to internal auditing services.

In order to strengthen or refute the conclusions made from the literature review, a thematic analysis was performed. The thematic analysis was performed on profiles of internal audit functions published by Protiviti. In short, Protiviti (an international internal audit consulting firm) conducts interviews with reputable internal audit functions from around the world and publishes these findings approximately bi-monthly. These interviews attempt to identify strategies, experiences and challenges pertaining to the internal audit functions of multinational organisations. The profiles are narrative descriptions of successes experienced by these functions, the current risks and events affecting the functions, and the activities and/or attributes of the function that contribute to its value proposition. A collection of these reports is published annually as the “Internal Auditing Around the World” series.

The thematic analysis was performed on all the Protiviti Performer Profiles published on the Knowledgeleader website during 2016 (Protiviti, 2016a; Protiviti, 2016b). In total, there were nineteen (19) profiles of internal audit functions published in 2016, featuring a diverse mix of organisations from various industries and countries. Refer to Appendix A for the list of organisations whose internal audit functions were analysed. The fact that the sample selection was not limited to a specific industry or country strengthens the transferability (generalisability) of the findings (Shenton, 2004; Whiteside *et al.*, 2012). Similarly, the fact that secondary data was used strengthens the credibility of findings in this case: as the data was not gathered specifically with the research question in mind, the risk of researcher bias was minimised (Whiteside *et al.*, 2012; Elo *et al.*, 2014). The sample selected for the thematic analysis was limited to Protiviti's 2016 profiles (19) as these were the most recent published profiles at the time the research commenced. While in the future the sample size and timespan can be extended, for the purposes of developing an initial framework the sample size was deemed sufficient.

Thematic analysis as a methodology in the accounting sciences has previously been applied by Moloi (2015) and were deemed suitable for the current study. The main justification for using thematic analysis as the research methodology (as opposed to content analysis) is that it provides "a rich thematic description" (Braun and Clarke, 2006:11). In addition, content analysis relies essentially on frequency testing of recurring words and/or phrases (Braun and Clarke, 2006; Vaismoradi *et al.*, 2013), a process that could remove from the results some of the themes the authors were seeking to identify and record. In line with the aims of this paper then, a thematic analysis approach was preferred, in order to include *all* possible value-adding themes, and not only the most frequently appearing themes.

As the thematic analysis was informed by the attributes and overarching themes identified during the literature synthesis, a deductive research approach was deemed appropriate and thus followed (Braun and Clarke, 2006; Vaismoradi *et al.*, 2013). According to Braun and Clarke (2006), a deductive approach is more suitable to a conceptual (theoretical) research approach (where the objective is to answer a specific research question), as

opposed to an inductive approach, which is more appropriate in situations where the analysis of the data itself enables a research question to evolve from the data.

A structured process was followed to perform the thematic analysis, in line with Braun and Clarke's (2006) recommended phases for conducting a thematic analysis, to ensure dependability of the results. The analysis was clearly documented using Excel and a record of the process followed was kept.

*Phase 1: Familiarising oneself with the data* - Each profile was studied in depth by reading and highlighting possible value-adding attributes of each profile.

*Phase 2: Identification of initial codes* - Attributes and activities ascribed to each profile were identified through line-by-line analysis and these codes were documented in Excel.

*Phase 3: Searching for themes* - The codes identified in each of the individual profiles were then collated to identify recurring attributes, resulting in 80 general value-adding attributes.

*Phase 4: Reviewing and Phase 5: Defining themes* - These 80 attributes were then re-evaluated and grouped, which resulted in a consolidated set of 34 remaining attributes. These remaining 34 attributes were compared to the attributes identified through the literature synthesis. The overarching attribute themes identified in Table 1 specifically assisted in matching of the literature to the thematic analysis findings and to define each attribute.

*Phase 6: Producing the report* - The construction of the framework included attributes identified from both the literature and thematic analysis. Four attributes were identified during the thematic analysis that had not been identified in the literature synthesis and were added to the framework. Three attributes were identified in the literature that were not repeated in the thematic analysis. These were also included in the framework for completeness, as the researchers had no control over the extent of information included in the profiles analysed. There was therefore a large overlap (30 out of 37 attributes) between the attributes identified through the thematic analysis with those from the literature, confirming the trustworthiness of the findings. The result was a total of 37 attributes against which to evaluate the value added by internal audit functions. These 37

attributes were then evaluated, grouped and matched to the dimensions of SERVPERF to form a framework for evaluation of value-added by internal audit functions.

Nowell *et al.* (2017) specified that to establish the trustworthiness of a thematic analysis, the credibility, transferability, dependability, and confirmability of the process needs to be confirmed. In this case credibility of the data was confirmed by using secondary data that was not gathered with the current research objective in mind; transferability was confirmed by the inclusion of a wide range of organisations (from different industries, sizes and countries) in the data set. Dependability was achieved by following the structured process for thematic analysis proposed by Braun and Clarke (2006) and by documenting and keeping record of the process followed and the results of each of the six phases of the analysis. Confirmability is established if the other criteria of trustworthiness (credibility, transferability and dependability) is in place (Nowell *et al.*, 2017), but in this case confirmability was further supported by the large overlap between the results of the analysis compared to the synthesis of literature on the same topic. The next section discusses the findings and the proposed framework.

#### **4. A framework for evaluating the value added by internal auditing**

The thematic analysis (as discussed in the previous section) resulted in the identification of 34 value-adding themes and a further 3 themes were added to this from the literature synthesis. These themes were evaluated and compared to the dimensions of SERVPERF to determine whether it can be categorised accordingly. As discussed in the literature review, the SERVPERF dimensions were found to be a valid structure for the evaluation of service quality, and by extension perceived value. It was found that the identified themes could be categorised according to the five SERVPERF dimensions, therefore forming a basis for the evaluation of perceived value-added by internal auditing. The following aspects informed the formulation of the framework:

- The results of the review of the literature on value-adding internal audit functions and the overarching themes identified (summarised in Table 1);

- The literature on service quality dimensions and criteria as per the SERVPERF dimensions and its application to external auditing (Parasuraman *et al.*, 1991; Cronin and Taylor, 1992; Ismail *et al.*, 2006) (see Table 2);
- The results of the thematic analysis of the 19 Protiviti Performer Profiles (2016) of value-adding internal audit functions.

The results will be discussed in accordance with the five SERVPERF dimensions. In summary, it was found that for internal auditing to be perceived as value-adding by its stakeholders it needs to provide a service that is responsive to organisational needs and provides assurance. A value-adding internal audit service makes use of tangible elements and result in tangible benefits. Also, internal audit services need to be provided with a level of empathy and in a reliable manner.

#### *4.1 Discussion of findings:*

##### ***Responsiveness***

The findings from the thematic analysis and literature reviewed indicate that in order for internal audit functions to be perceived as responsive, communication with stakeholders need to be clear and adaptive according to specific stakeholder positions and needs. Prompt and timely services need to be provided based on stakeholders' needs. The whole function should be service-orientated and needs to respond to stakeholder requests and provide prompt feedback. An internal audit function that performs risk-based audits, aligned to the organisation's strategic objectives will be perceived as value-adding. A responsive audit approach is therefore the function's ability to respond to a rapidly changing business environment, thus not rigid in its audit plan. The results from the thematic analysis further indicated that the ability to look at the organisation as well as audit findings in a holistic manner is perceived as value-adding. It should however be noted that this attribute was not specifically supported in the literature. However, indirectly studies on combined assurance initiatives alluded to the importance of having a holistic view of risk management. However, the thematic analysis finding rather refers to audit findings and the organisation in general and is not specific to assurance on risk management processes.

### ***Assurance***

This dimension from a service quality perspective refers to the ability of the service provider to instil trust and credibility. This is even more important for internal audit functions whose main purpose is to provide assurance services, which is intrinsically to enhance the credibility of information, a process or a report. Therefore, providing internal audit services that instils comfort and confidence to the wide range of stakeholders (audit committee, management and other) is no small feat. The thematic analysis findings confirmed what was found in the literature: internal auditors who apply the correct level of professional scepticism are perceived to add value. From the literature it was found that internal auditors who apply the highest level of confidentiality were perceived as adding value. Both findings in the analysis and literature review suggest that independence and objectivity of internal auditors are deemed to be important to instil trust. It was further found that internal audit functions that provide some level of assurance regarding fraud within the organisation and who contributes actively to combined assurance initiatives are perceived to be value-adding.

### ***Tangibles***

For a service to be perceived as value-adding there must be a tangible component, either used during the service or a tangible result of the service. The thematic analysis, supported by the literature reviewed, found that internal audit functions that make use of the latest technology when performing the audit were found to be value adding. Furthermore, having enough resources, staff and equipment to perform the internal audit service will contribute to it being perceived as value-adding. The neat appearance of internal audit staff as well as their ability to act with professionalism was found in the literature to be contributors to being perceived as value-adding. This was however not confirmed in the thematic analysis. Regarding the tangible output of internal audit services, both the thematic analysis and literature confirm that the following increases value perception: internal audit findings that are clear and practical; implementation of internal audit recommendations that lead to measurable improvements within the organisation; quality internal audit reports; and presentations that are delivered with confidence and clarity. Internal audit functions that play an educational role within the

organisation (regarding controls, risks and governance) were further perceived as contributing in a tangible way to the organisational objectives.

### ***Empathy***

Although internal auditors render a professional service to their stakeholders the findings suggest that if the service is provided with a level of empathy, stakeholders are more likely to perceive the service as value adding. Providing an internal audit service with empathy entails giving individual attention to stakeholders and being empathetic towards their needs. It was further found that internal auditors are seen as value adding and empathetic when they plan their audits whilst considering operational needs; listen to auditees' perspectives; and engage with the audit committee. The thematic analysis pointed to collaboration with management as a further value attribute, however support for this could not be found in the literature. This could be due to the fact that in practice management may expect some form of collaboration with the internal audit function. However, theoretically collaboration with management may deter perceived independence of the function.

### ***Reliability***

This dimension entails the delivery of internal audit services as promised and in an accurate manner. The findings (both thematic analysis and literature review) indicate that internal audit functions who complete audit plans within the specified time; and employs staff who are technically competent and dependable are perceived as value adding. Reliability is further ensured by compliance with the IIA's Standards and the Code of Ethics. If the internal audit function's activities lead to a decrease in the information asymmetry within the organisation there is an increase in the perceived reliability of the service being rendered. Findings from the literature however added that a limited staff turnover in the function increases perceived value-add, whereas the thematic analysis rather pointed to a strive for excellence and productivity within the internal audit function as important to ensure perceived reliability.

Table 3 below provides a succinct summary of the categorised themes identified that can be used as criteria for a framework for evaluation of value added. Table 3 also contains

a complete list of sources used to draft the framework. It is envisioned that this framework can be used in practice as a guideline to create a structured stakeholder-specific satisfaction survey.

**Table 3 - Framework for the evaluation of the perceived value added by internal auditing**

RESPONSIVENESS	Sources
<ol style="list-style-type: none"> <li>1. Clear and adaptive communication with stakeholders.</li> <li>2. Prompt and timely services based on stakeholders' needs.</li> <li>3. Willingness to help and has a service-orientation.</li> <li>4. Responds to requests and provides prompt feedback.</li> <li>5. Responds to and identify risks and performs risk-based audits.</li> <li>6. Audit work is aligned to strategic objectives of the organisation.</li> <li>7. Adapt and respond to changes in the organisational environment to remain relevant.</li> <li>8. Approach challenges and findings holistically and have a big-picture view. #</li> </ol>	<p>Audit Executive Centre (2016:32); Protiviti (2016a); Protiviti (2016b); PwC (2016:10); Witzany and Harrington (2016:2); D'Onza <i>et al.</i> (2015:184); Fanning and Piercey (2014:576); Coetzee <i>et al.</i> (2010:1); Barac <i>et al.</i> (2009:987); Fourie (2008:68); Mihret and Woldeyohannis (2008:583); Allegrini <i>et al.</i> (2006:852); Ismail <i>et al.</i> (2006:756); Smith (2005:518); Roth (2003:33,36); Bou-Raad (2000:182); Parasuraman <i>et al.</i> (1991:448-449).</p>
ASSURANCE	Sources
<ol style="list-style-type: none"> <li>9. Provides comfort and confidence to the audit committee, senior management and other stakeholders on risk management, control and governance processes.</li> <li>10. Performs work with confidentiality in mind. *</li> <li>11. Provides assurance with regards to fraud within the organisation.</li> <li>12. Applies the correct level of professional scepticism to provide the correct level of assurance.</li> <li>13. Plays an active and leading role in combined assurance initiatives.</li> <li>14. Acts with independence and objectivity in mind.</li> <li>15. Instils trust and credibility. #</li> </ol>	<p>IIA (2017:3); Protiviti (2016a); Protiviti (2016b); Witzany and Harrington (2016:2); D'Onza <i>et al.</i> (2015:190); Decaux and Sarens (2015:76); Soh and Martinov-Bennie (2015:102); McCoy <i>et al.</i> (2011:4); Mihret and Woldeyohannis (2008:583); Ismail <i>et al.</i> (2006:756); Jayalakshmy <i>et al.</i> (2005:251); Wood (2004:3); Roth (2003:37); Bou-Raad (2000:184); Parasuraman <i>et al.</i> (1991:448-449).</p>

TANGIBLES	Sources
<p>16. Makes use of advanced technology and technologically improved audit methodology such as continuous auditing and big data analysis.</p> <p>17. Equipment and resources are sufficient.</p> <p>18. The function is well staffed.</p> <p>19. Staff is neat and act with professionalism. *</p> <p>20. Findings and recommendations for improvement are clear and implementable/practical.</p> <p>21. Implementation of recommendations lead to measurable improvements in the business operations (e.g. cost savings or increased revenue).</p> <p>22. Produces quality internal audit reports.</p> <p>23. Delivers confident and clear presentations with authority.</p> <p>24. Plays an educational role, provides training to the business.</p>	<p>Dzuranin and Mălăescu (2016:8); Protiviti (2016a); Protiviti (2016b); PwC (2016:2); Witzany and Harrington (2016:2); Mungal and Slippers (2015:69); Protiviti (2015:2); Soh and Martinov-Bennie (2011:563); Mihret <i>et al.</i> (2010:244); Barac <i>et al.</i> (2009:986); Fourie (2008:74); Mihret and Woldeyohannis (2008:586); Elliott <i>et al.</i> (2007:562); Ismail <i>et al.</i> (2006:756); Sarens and De Beelde (2006a:238); Smith (2005:515); Roth (2003:36); Bou-Raad (2000:184); Parasuraman <i>et al.</i> (1991:448-449).</p>
EMPATHY	Sources
<p>25. Provides individual attention to auditees, the audit committee and the board.</p> <p>26. Understands the needs of the organisation.</p> <p>27. Plans and schedules audits whilst considering operational impact and requirements.</p> <p>28. Listens to auditee and management perspectives.</p> <p>29. Engage with the audit committee and take cognisance of their concerns.</p> <p>30. Collaborate with management. #</p>	<p>Audit Executive Centre (2016:14); Protiviti (2016a); Protiviti (2016b); PwC (2016:2); Barac <i>et al.</i> (2009:987); Sarens <i>et al.</i> (2009:91); Mihret and Woldeyohannis (2008:587); Allegrini <i>et al.</i> (2006:850); Ismail <i>et al.</i> (2006:756); Sarens and De Beelde (2006b:18); Sarens and De Beelde (2006a:238); Parasuraman <i>et al.</i> (1991:448-449).</p>
RELIABILITY	Sources
<p>31. Complete audit plans within the specified timeframe.</p> <p>32. Internal audit staff have technical competencies and or insources skills when needed.</p> <p>33. The function and staff are dependable.</p> <p>34. Staff turnover within the internal audit function are limited, to ensure continuity of quality services. *</p> <p>35. Complies with the IIA's Standards and Code of Ethics.</p> <p>36. Findings, reports and communication lead to a decrease in information asymmetry between the board and management.</p> <p>37. Strive for excellence and productivity. #</p>	<p>Protiviti (2016a); Protiviti (2016b); PwC (2016:2); D'Onza <i>et al.</i> (2015:192); Soh and Martinov-Bennie (2015:103); Coetzee <i>et al.</i> (2010:101); Barac <i>et al.</i> (2009:987); Sarens <i>et al.</i> (2009:91); Mihret and Woldeyohannis (2008:586); Goodwin-Stewart and Kent (2006:85); Ismail <i>et al.</i> (2006:756); Roth (2003:36); Kachelmeier and Shehata (1997:411); Parasuraman <i>et al.</i> (1991:448-449).</p>

# - Identified during the thematic analysis and not repeated in the literature synthesis.

\* - Identified from the literature synthesis and not repeated in the thematic analysis.

## **5. Limitations, areas for further research and conclusion**

Even though internal audit effectiveness is affected by perceived quality and value added, it is a much broader concept. Measuring effectiveness will include not only the determination of stakeholder perceptions but also various other factors prescribed in the IIA's QAIP, in line with the IIA's Standards (IIA, 2017). Internal audit effectiveness requires the assessment of the approach and procedures applied within the internal audit function in addition to evaluating value added, which is an area for future research. The proposed framework accordingly presents only a piece of the puzzle to holistically measure the effectiveness and quality of an internal audit function. The view taken in this paper is that the value-added construct is stakeholder-specific, whereas internal audit effectiveness is more holistic.

The aim of this paper was to propose a framework for the evaluation of the perceived value added by internal audit functions in a structured manner, based on service quality principles. The literature on internal auditing and service quality, as well as the results of a thematic analysis on secondary data, were employed in order to structure the value-adding attributes of internal auditing into an evaluation framework. SERVPERF, a service quality evaluation instrument, was amended to serve as a basic framework for determining stakeholders' evaluation of the value added by internal audit functions. This paper contributes to the literature in two ways: Firstly, by proposing the framework as no prior instruments to evaluate the value added by internal auditing have been identified. Secondly, by applying service quality principles, specifically SERVPERF, to internal auditing.

The framework proposed provides a basis for preparing structured satisfaction surveys, in practice, that focus specifically on assessing the value-adding activities and attributes of internal auditing. Such surveys can provide stakeholders with the opportunity to critically assess the function and to provide specific feedback. In practice, the framework criteria can be refined to suit the specific needs of individual organisations, and rating scales can be used to measure each criterion. Implementing this process of stakeholder evaluation can decrease the occurrences of under- or over-auditing, as internal audit functions will be monitored and evaluated according to specific criteria (which can also

inform their audit plans). This process could further lead to more cost-effective internal audit activities. Internal audit functions' efforts to achieve service quality should emphasise and focus on specific deliverables that add value. These deliverables (whether quantifiable or not) can be monitored and evaluated through the framework proposed in order to improve stakeholder satisfaction.

As this research is mostly conceptual (supported by an analysis of secondary data), the framework still needs to be empirically tested to confirm its validity. The framework proposed in this paper comprises of criteria identified from a limited number of specific sources. Expanding the secondary data universe, for example, and reinvesting the results of empirical testing are likely to achieve greater refinements and sophistication in the framework. Areas for further research therefore include:

- Testing of the proposed framework for measuring value added by internal auditing, in practice.
- Investigating current methods employed by practitioners to evaluate value added, in order to inform improvements to the proposed framework.
- Following an abductive approach (instead of the deductive approach followed in this paper) during analysis of the internal audit profiles.
- Considering other measurement models to accurately evaluate internal audit service quality.
- Investigating the adaptation of the framework to address the specific and often unique needs of different stakeholder groups. The proposed framework therefore represents criteria for value adding internal audit functions for all stakeholder groups in general, but future studies can amend the framework for specific stakeholder groups. It is also proposed that in practice the framework be refined per stakeholder group, based on stakeholders' needs of that specific organisation.
- Considering the importance of specific dimensions within the proposed framework (SERVPERF dimensions). The current study deemed each dimension to be of equal importance in the evaluation process.

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## Appendix A

The following organisations' internal audit functions were analysed (published during 2016 on the Knowledgeleader website ([www.knowledgeleader.com](http://www.knowledgeleader.com))) (Protiviti, 2016a; Protiviti, 2016b):

	Organisation Name	Headquarters	Industry	Number of years in place
1	Accenture	Ireland	Information and technology service	15
2	American Airlines	US	Airline	30
3	Artistocrat	Australia	Gaming	10
4	Barclays	UK	Banking and Finance	n/a
5	Australian Taxation office	Australia	Government (public service)	20
6	Bayer	Germany	Healthcare, agriculture, high-tech polymer materials	80
7	Eni	Italy	Energy	15
8	Etihad Airways	United Arab Emirates	Airline	8
9	Euroclear	Belgium	Financial Services/Securities	14
10	JCPenney	United States	Retail	93
11	Kimberly-Clark	United States	Consumer Packaged Goods	40
12	London Stock Exchange Group	United Kingdom	Global Market Infrastructure	10
13	UOB	Singapore	Financial Services/Banking	40
14	BaylorScott & White	United States	Healthcare	34
15	Beam Suntory	United States	Spirits	5
16	CNL	United States	Investment Management	11
17	Delta	United States	Airline	7
18	Epiq	United States	Professional services and integrated technology for the legal profession	7
19	Fresenius	Germany	Healthcare	n/a