CHAPTER 6
MANAGING THE INTERNAL AUDIT FUNCTION

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This guidance fits into the Framework under the heading *Development and Practice Aids*.

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I. Introduction

This chapter discusses staffing and managing the internal audit function (IAF) as a component of organizational governance, and has two main purposes. First, it familiarizes interested practitioners and researchers with current trends and issues in staffing and managing the IAF. Second, it suggests questions and topics for future thinking and research among practitioners and academics. Managing and staffing an IAF is a vast and complex undertaking that remains relatively unexplored by rigorous research. The chapter contains several citations to practitioner information and academic research, but it does not attempt to include a comprehensive literature review of all relevant articles or research. Rather, it is intended that interested readers use the references as a starting point in accessing other relevant information. Much of the research cited is found in other disciplines or in the external audit domain. While the external audit environment can usefully serve as a starting point in generating researchable ideas in internal auditing, the researcher must carefully take into account the sometimes subtle differences between the institutional and environmental features of internal and external auditing. In fact, if viewed appropriately, these differences offer fertile ground for the generation of promising research questions.

The organizing framework for the chapter is adapted from a widely accepted, fundamental model of management (DuBrin, 1999, Dessler, 2000, and Griffen, 2002). The primary components of that fundamental management model, and of this chapter, are planning, organizing, staffing, leading, and controlling.

The planning section of this chapter discusses the issues involved in planning at the organizational and individual engagement levels. The organizing section looks at organizing the IAF at a company-wide level and then continues by analyzing the use of internal audit teams and the common practice of using the IAF as a management training ground. Staffing the IAF is a significant part of the chapter. This section discusses the hiring, training, and staffing of internal auditors as well as the use of task structure to make effective staff assignments. It also analyzes compensation and retention strategies of the IAF. The leading section discusses leadership and motivation issues. Finally, the controlling section discusses the importance of ensuring the IAF is adding value to the organization.

II. Planning

Internal Audit Planning at the Organizational Level

Whether the IAF is in-house or outsourced, the IAF should develop an understanding of the risks that may prevent the organization from achieving its objectives. Based on this

understanding, the IAF should then plan its work to help measure and mitigate those risks. These responsibilities come as a natural result of the IAF's role as an agent employed to help ensure that the organization accomplishes established objectives. However, the internal auditor's role is unique because the internal auditor is an agent that monitors the actions of another agent (management), both of whom are employed by the same principal[1] (Adams, 1994).

Internal auditing standards indicate that "the chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals" (*Standard 2010*). During the process of determining, monitoring, and mitigating the organization's risks, the IAF may provide assurance or consulting services. Kinney outlines the process of risk assessment and risk management in Chapter 5.

Traditionally, internal auditors have identified and assessed organizational objectives and risks informally. However, there is an emerging trend for internal auditors to become more deeply and actively involved in organizational risk management. As they become involved in risk management it is essential that they obtain management and board input and feedback. For instance, some auditors conduct one to two-day seminars together with key management personnel. During this session, the participants attempt to determine key business drivers and objectives, and the obstacles that may prevent management from utilizing these drivers and accomplishing their objectives. Armed with this knowledge, internal audit leaders can establish an internal audit plan that addresses the organization's needs (Homer and Holdren, 2001). Techniques such as these seminars, which capture the real-time needs of the organization, help the IAF fulfill its corporate governance responsibilities. Seminars and other techniques (interviews, surveys, etc.) are often conducted on a predetermined time schedule that allows auditors to continuously align the internal audit plan with the organization's objectives (LaTorre, 2002). Other auditors establish risk databases that catalog products and processes along with their associated risks, and some IAFs even use complex algorithms to identify and calculate the organization's level of risk (Leithhead and McNamee, 2000).

One important area that internal auditors may be called upon to assess and improve is the "tone at the top." Tone at the top is a basic component of the COSO Internal Control framework and its importance has been highlighted by recent high profile business failures and frauds perpetrated by top management. Boards can enlist the help of the IAF to ensure that the tone at the top is appropriate and effectively communicated to all levels of the organization (PricewaterhouseCoopers, 2002).

Once the organization's risks have been identified, internal auditors and management can also work together to develop, evaluate, and improve internal controls to mitigate exposure

to risk. Control self-assessment (CSA) is a tool internal auditors use to involve management and other employees in these processes. CSA requires internal auditors to become audit facilitators by helping employees identify and monitor control areas that are important in ensuring that business objectives are met (Morris, 2001). While internal auditors have traditionally focused on providing assurance services aimed at mitigating risk, they have increasingly begun to deliver a variety of consulting services that assist clients in developing solutions to mitigate risks. As internal auditors develop their skills in this area, related consulting services are becoming a significant component of internal audit work. This trend highlights the tension that may exist as internal auditors serve the board by assuring that risks are being identified and as they serve management by helping to develop procedures that mitigate these risks. This tension is discussed in detail in Chapter 4 of this report.

Academic Research

As indicated in many other sections of this chapter, external audit research provides researchers with a potential starting point in examining issues related to internal audit planning. Among many other planning issues examined in the external audit realm, researchers have attempted to determine how varying levels of inherent risk can affect auditors' risk assessment, generation of hypotheses, and justification of audit programs (Wright and Bedard, 2000). These issues are also found in internal auditing when identifying risks at the organizational and individual engagement level. (See subsequent section for a discussion of engagement planning.) Researchers should identify differences between the external and internal audit planning environments, tasks, etc., and explore these differences to identify relevant research topics in internal auditing.

Research Questions

- How do internal audit plans identify and attempt to mitigate organizational risks?
- In helping management identify organizational risks, what internal auditor characteristics, heuristics, and background lead to more effective risk assessment?
- External auditors are commonly emphasizing a top-down, broad-based view of risk assessment. How is the focus of internal auditors different from that of external auditors in identifying organizational risk? Are internal auditors better or worse at identifying organizational risk than external auditors? Why?
- What training techniques, if any, can help internal auditors gain the ability to effectively identify organizational risks?

- How does planning for IAFs that perform a significant amount of consulting work differ from planning for IAFs that perform primarily assurance work?

- How does the IAF/management relationship vary across countries and cultures?

Planning Individual Engagements

In addition to developing an organization-wide audit plan, "internal auditors should develop and record a plan for each engagement" (*Standard 2200*). The IIA's *Standards for the Professional Practice of Internal Auditing (Standards)* also require that auditors consider the objective and scope of each engagement in developing the engagement plan.

In developing the engagement plan, auditors must ensure that the assurance/consulting engagement is designed to meet the objectives of the internal audit plan. If the internal audit engagement has been properly engineered, it will in turn contribute to ensuring that the organization's risks have been identified and appropriately controlled. The engagement plan will vary across engagements, but similarities will likely exist among similar types of engagements, such as financial audit engagements, operational audit engagements, and consulting engagements. Researchers can analyze the components that make these different engagement plans effective.

In order to improve the likelihood of a successful engagement, internal auditors can obtain management's cooperation early in the planning process by emphasizing that their purpose is to assist management in adding value to their divisions or departments and by asking the managers to sign off on planning documents prior to beginning the engagement or service (Hubbard, 2000). Additionally, internal auditors can conduct preliminary engagement planning several months in advance of the actual assurance or consulting work. Lemon and Tatum include a discussion in their chapter addressing the importance of effective planning in internal audit engagements.

Another important part of planning the engagement is assigning knowledgeable auditors with relevant experience to each engagement. Experienced, knowledgeable auditors are more likely to gain the confidence of the employees whose area they audit. IA managers must also comply with the *Standards* by assigning auditors who can act independently and objectively. Effective staffing for a particular engagement may require the IAF to outsource personnel from professional services firms who possess the skills needed to complete an engagement. Additionally, the IAF can bring in people from within the organization, but outside the internal audit department — a practice known as "insourcing." Insourcing and outsourcing should be planned well in advance and may be particularly relevant for

engagements that require auditors to possess technological or otherwise specialized knowledge and skills (Hubbard, 2000). While staffing is an important part of planning the engagement, the staffing section of this chapter will further discuss the importance of appropriate staffing assignments.

Engagement plans should also include an estimate of the cost of the engagement, specific requirements for the number of auditors needed, and the skills these auditors should possess. The plans should then contain a detailed schedule of how long the engagement will last and how the results of the engagement will be reported. Some engagements are designed to provide explicit assurance while others provide implicit assurance.

Academic Research

Research has been conducted in the external audit environment to evaluate auditors' planning activities, such as auditors' assessments of inherent and control risk and the use of analytical procedures (Waller, 1993, and Biggs et al., 1995). Additionally, researchers have attempted to determine the returns to planning. For instance, Davidson and Gist (1996) document that planning reduces "total audit effort" to a certain extent, but at some point planning actually increases total audit hours. Researchers can extend this work by identifying unique aspects of planning in internal audit settings and assessing the extent to which theories and findings from the external audit environment apply to internal audit. Researchers can also extend the work of previous research that analyzes the interactions between internal and external auditors in planning (Krishnamoorthy, 2002).

Research Questions

- What characteristics of engagement planning (e.g., timing, people involved, scope, etc.) improve the effectiveness of internal audit engagements? How do these characteristics vary among financial audits, operational audits, and consulting engagements?

- What are the returns to planning internal audit engagements? How do these returns compare to those documented in the external audit setting?

- What are the cost drivers of an internal audit engagement? Can knowledge of these drivers be used to help practitioners accurately estimate the cost of an engagement?

- How is engagement planning different for assurance versus consulting engagements? (See Chapter 4 of this monograph.)

- Does obtaining participation and buy-in during the planning phase affect client attitudes, cooperation, and audit effectiveness?

- What is the optimal engagement length? Does this differ among organizations and industries? (Anderson et al., 1994)

- What auditor characteristics improve the auditor's ability to identify relevant engagement risks?

III. Organizing

The Structure of the IAF

The structure of the IAF varies widely in practice. For example, some IAFs have a chief audit executive (CAE) who is a member of senior management and who participates at the highest level of the parent organization, while other IAFs are managed as part of the organization's accounting or finance function. In some cases, the IAF is outsourced, co-sourced, or combined with other assurance functions (e.g., security, quality, compliance; see Roth, 2000). Combining the IAF with other functions may facilitate the *Standards'* directive to "share information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts" (*Standard 2050*).

Once the IAF determines whether to outsource and the extent to which it will partner with other assurance functions within the organization, it must assign responsibility to individuals and groups. As mentioned, some organizations appoint a CAE to coordinate the work of the IAF and then report to a member of senior management, but this is not always the case. However, the *Standards* do require "the chief audit executive [to] report to a level within the organization that allows the internal audit activity to fulfill its responsibilities" (*Standard 1110*). The organizational level to which the CAE reports may be an indication of whose interests the CAE will ultimately serve.

In addition to determining which internal audit personnel lead the IAF and interacting with external decision-making parties, the IAF must also decide how it will assign responsibility within the function. This includes determining the appropriate span of control and the level of centralization in the IAF.

In the recent past, some IAFs experienced a period of restructuring by reducing management positions and flattening the organizational structure. These changes and others like it are designed to increase productivity, but they may cause concerns about opportunities for

promotion within the IAF (though this concern may be mitigated if IAF is used as a management training ground). Further, decentralizing decision-making within the organization may increase role ambiguity because employees can become confused about their responsibilities in new roles and relationships (Gray and Gray, 1996).

The size of the internal audit department heavily influences the structure of the IAF. Large IAFs are more likely to have a hierarchical management structure, with managers exercising control over specified internal auditors and audit teams. Auditors in larger organizations may have less autonomy, while auditors in smaller IAFs will likely complete a wider variety of tasks and participate in several types of engagements.

Academic Research

Organizational structure and its determinants have been discussed in the general management literature and, to a lesser extent, in the accounting research literature (Melumad et al., 1987). Researchers have also attempted to understand the motivation for and results of downsizing and corporate restructuring. For example, downsizing has been shown to affect employee morale, individual performance, and firm financial performance (Manson, 2000). These research implications may be relevant within an individual department such as the IAF. Role ambiguity and role conflict resulting from decentralization may create job stress and have a detrimental impact on morale and performance (Bamber et al., 1989).

Research Questions

- Does the presence of a CAE contribute to effective corporate governance? For example, do organizations with a CAE that reports to the board of directors experience less fraud, external audit failure, etc., than organizations with no CAE or a CAE that reports to management?

- Does combining IA with other assurance functions (security, quality control, etc.) facilitate communication and reduce redundancies? What are the other effects of such combinations?

- What is the optimal span of control for the IAF? How many managers should the IAF have, and how many auditors should they supervise?

- What type of structure facilitates communication in the internal audit function? For example, do IAFs with a CAE and several layers of management communicate more frequently with their employees, external auditors, and clients? What factors influence the quality of communication?

- Reduction in middle management may cut costs, but will it improve effectiveness and efficiency? For example, how will this reduction affect employee morale?

- How do IAFs that do not allow for growth within the function handle career advancement issues? How do these factors affect the types of people who are attracted?

- Does reducing middle management change the number and characteristics of people applying for positions within internal auditing? If a company reduces middle management, is the IAF more likely to serve as a training ground for company management?

- Is IAF size correlated with audit quality?

- Does the size of the IAF impact its reporting structure? For example, do large IAF functions typically have CAEs?

- How effective are the different approaches to organizing the IAF? Will the most effective structures be different in complex governance situations?

- Can agency theory provide insights that help explain the type of structure, as well as the size of, the IAF within different organizations? (Adams, 1994).

Audit Teams

A team is defined as an interdependent set of people that is part of another larger social system or organization and that has been organized to accomplish a particular purpose or set of purposes (Stewart et al., 1999). Teams have been shown to improve productivity and efficiency in some work settings, but not all. Multidisciplinary, self-directed teams are increasingly common in organizations today. A self-directed work team (SDWT) is a team that acts with a relatively great degree of autonomy by exercising control over such things as how the work is organized and completed, who performs which roles, and how performance is measured (Stewart et al., 1999). Self-directed teams also choose their leaders and sometimes even decide if the team will have a leader.

Although teams may fill individual social needs (Stewart et al., 1999), teams should be used and structured in ways that are effective in particular organizational settings. The IAF should adopt teams only if they improve the quality and efficiency of the audit work and thus must determine which settings and circumstances are appropriate for the use of teams. A critical

area of research in internal auditing is to identify those features of the work environment, task setting, and task that influence the effectiveness of different types of teams.

The nature of the teams currently used in internal auditing varies across organizations. While in some organizations individuals are allowed to self-select into teams, teams are typically assigned by an audit manager or by the CAE. These teams can be temporary or relatively permanent and vary in size depending on the needs of the engagement. Teams are responsible for the majority of the assurance work done in a typical internal audit setting. In most cases, the team is accountable to a manager or the CAE, who is responsible for ensuring that the team effectively fulfills its responsibilities. Though fairly rarely, some IAFs use self-directed teams. The implementation of self-directed teams may blur the lines of responsibility between managers and staff auditors and increase role stress and role conflict.

Academic Research

The development and use of teams in internal auditing brings with it a variety of research implications. Internal audit researchers can draw on the extensive research that has been done on the role of teams in organizational settings, mostly in the organizational behavior and human resources areas. Some of the issues that have been addressed in this research include the formation and operation of effective teams, power and politics in team settings, team interdependence, team decision-making and problem solving, team cohesiveness, team staffing, power and conflict in teams, etc., (Turner, 2001). Research has been done on the effects of diversity on top management teams (Jackson et al., 1995), but not much has been done on the effects of diversity on lower-level teams. This may prove to be an increasingly important topic for IAFs with the growth of multinational organizations, and as internal auditors come from diverse backgrounds with varying levels of experience and expertise.

Research on self-directed teams is abundant (Manz and Sims, 1987). The effects of task structure on team effectiveness have also been researched heavily. By identifying the unique characteristics of internal auditors, internal audit work environments, and internal audit tasks (including assurance vs. consulting), researchers can contribute to our understanding of how and when various team types can be effective in internal audit settings. Although research on teamwork generally employs field studies, experimental and even archival research in this area could prove productive.

Research Questions

- What characteristics of internal audit work make the use of teams effective? What are the characteristics of internal audit tasks that are more/less suited to teamwork?

- To ensure performance and efficiency, how should teams be selected in an internal audit setting (self-selection, skills matched with job, etc.) and how large should the team be for particular work environments, task settings, and tasks? How long should internal audit teams remain together for different types of tasks?

- Can a self-managed internal audit team effectively handle the management responsibilities that may have previously belonged to a single person?

- What practices help teams make effective decisions in an internal audit setting? What team member characteristics improve team decision-making abilities? How does the use of teams affect on-the-job training?

- How do self-directed teams manage the potential problem of "diffusion of responsibility"?

- How can the performance of internal audit teams be measured?

- Are the conclusions and opinions of an internal audit team seen as more credible, objective, and relevant than those of an individual internal auditor?

The IAF as a Management Training Ground

Some organizations have long used internal auditing as a management training ground. IAFs that act as a management training ground serve management by providing internal audit services and by preparing internal auditors to become effective managers. New recruits are placed in the IAF for a period of two to three years with the intention of preparing them to take entry-level management positions or other positions within the organization. The IAF is used as a management training ground because it gives employees a unique opportunity to see the resources and processes of the entire organization. This exposure helps internal auditors to understand the business as a whole (Barrier, 2001). Additionally, internal auditors are exposed to top executives and areas of the business that are generally not seen by other employees. Thus, internal audit experience is often seen as a "fast track" to desirable management positions in such organizations. For example, Ford Motor Company's internal audit managers have sometimes recruited MBAs to the IAF by making it clear that they would be in the internal audit department for a relatively short period, and that experience in the IAF would give them the skills necessary to fill management positions later in their careers (Barrier, 2001). This practice may also be effective in attracting recruits that have highly sought-after technological skills that can be utilized by the IAF. This practice may in turn reduce the number of outside personnel the IAF relies on.

One CAE asserts that the management-training model directly influences the kinds of employees recruited into the IAF: "You're able to attract candidates who map better to current needs. They typically have a broader education as opposed to a strictly accounting/finance education. They have more experience, they seem to be more confident, and they seem to have better interviewing and facilitation skills and better interpersonal relationships. A different type of person is attracted to these new types of audit organizations" (Barrier, 2001). In many ways, the IAF makes a specific cultural choice in using the IAF as a training ground. Some organizations use the practice to improve morale and change the environment of the IAF. For instance, at Raychem the IAF is referred to as the Corporate Operations Review Group and auditors are business consultants. Raychem's IAF is "seen as a learning and developmental activity rather than as a career" (Stoner and Werner, 1995).

Using internal audit as a management training ground is also used to help retain top performers within the organization. This is accomplished by recruiting employees to work in the IAF who agree to stay within the company for a predetermined period of time after leaving the function. This approach is used at Wal-Mart Stores Inc. (Campbell, 2001). At Motorola, 85 percent of internal audit recruits remain with the company in other positions after leaving the IAF (Campbell, 2001).

The types of tasks assigned and training given may differ when the IAF is used as a management training ground. For example, to ensure that internal audit is preparing auditors to be managers, some IAFs provide training in soft skills such as leadership, public speaking, and communication skills.

Using the IAF as a management training ground is not without difficulties. High turnover within the function is an inherent part of using the IAF to prepare future managers. In fact, some observers question whether the lack of continuity within the internal audit staff may compromise audit quality. As a result, most functions keep a core group of auditors to provide a degree of stability. However, the IAF may face employee morale issues if core auditors are limited in their opportunities for growth while management trainees are consistently promoted to managerial positions. In addition to these concerns, internal auditors/management trainees may later become managers of departments they have audited, which may raise issues similar to those found in external auditing when clients hire former auditors.

Academic Research

Little research has been done on the use of the IAF as a management training ground. This practice is unique to internal auditing and provides researchers with an opportunity to make a significant contribution to our understanding of an important feature of the profession.

The research that has been done on the IAF as a management training ground is survey data, which is part of The IIA's biennial job market survey. Although the complete 2002 survey results are not available as of this writing, an article in the June 2002 issue of *Internal Auditor* highlighted a selected portion of them. Of the U.S. directors responding to the survey, 93.5 percent felt "that internal audit work provides experience that is of special value in management positions outside the audit group." Additionally, 44.6 percent of U.S. directors stated that management used the IAF as a training ground for future managers (Oxner and Kusel, 2002). This research is purely descriptive in nature, and makes no attempt to explain why this practice exists in some organizations but not others. However, it may provide a useful starting point for more rigorous research.

Research Questions

- Some IAFs act as a training ground for future managers, while others do not. This provides rich potential for comparisons across IAFs on several dimensions. For example, researchers can explore the effectiveness of using the IAF as a training ground both in terms of management preparation and IA effectiveness. At the broadest level, how does using the IAF as a management training ground affect organizational governance?

- Along what dimensions do management trainees and core auditors differ? Some examples may include personality variables, educational background, approaches to problem-solving, nature of relationships with auditees, and attitudes toward independence and objectivity. What types of employees make the best core group of auditors? What types of employees make the best management trainees?

- Teams may include both management trainees and core auditors. How effective are these teams in comparison to other teams?

- Does using the IAF as a management training ground improve recruiting? Why? For example, are higher quality recruits attracted to the IAF if it acts as a management training ground than if it does not?

- Is serving in the IAF an effective way to prepare management trainees to become managers? Why?

- How long should management trainees remain in the IAF?

- Does agency theory shed light on why some organizations use the IAF as a management training ground while others do not? What issues arise when agents

who are hired to monitor another agent (management) expect to be later funneled into management positions themselves?

- What are the organizational and IAF characteristics that can predict whether the IAF will be used as a management training ground?

IV. Staffing

Before hiring or beginning any type of internal audit staffing, the organization must determine its human capital strategy. Creating and defining this strategy guides the IAF in all of the staffing decisions it subsequently makes. PricewaterhouseCoopers, LLP has delineated four basic internal audit human capital models which are not necessarily mutually exclusive and which can be combined in a number of ways to create a human capital strategy (Anderson, 2001).

The first human capital model is the **experienced hire** career model. An IAF that utilizes this model focuses on hiring or "importing" experienced personnel from within or outside the organization. These functions want to ensure that they have auditors with specialized business knowledge and skills. Internal auditing is seen as a permanent career destination.

The **migration** model also focuses on ensuring that the IAF is staffed with individuals who possess skills that are proven to make the IAF a successful part of the organization. While this model is not designed to *automatically* move personnel from the IAF to management positions, the movement of successful internal auditors into other areas of the organization is seen as a positive sign of the IAF's ability to add value to the organization.

On the other hand, the strategy implicit in the **consulting** model's strategy is to recruit auditors into the IAF only to later move these individuals into other organizational functions. Under this model, the IAF consists of a group of consultant auditors and another group of core auditors. Consultants are internal auditors who expect to move to other areas of the organization upon gaining valuable experience within the IAF. Core auditors remain with the IAF for an indefinite period of time. This model employs the IAF as a management training ground.

Finally, IAFs that employ the **change agent** model view the IAF as an integral part of the organization's human resource strategy. "Companies using this model selectively deploy talent through internal audit to create a pipeline of corporate change agents who flow continuously into business units. Here, the migration of talent to line businesses occurs as part of a formal corporate strategy to achieve this objective and is a primary performance metric for internal audit" (Anderson, 2001).

The IAF's choice of a human capital strategy, consisting at least partially of a combination of the above component models, will drive the staffing decisions it makes. For instance, an IAF that utilizes the consulting model will likely attract individuals with different characteristics than will an IAF that employs the migration model.

Hiring

Hiring qualified personnel is an essential part of effectively managing an IAF. Because of the wide variety of alternative human capital strategies, industry differences, and varying knowledge and experience requirements, internal audit practitioners take different approaches in hiring to meet organizational needs.

As mentioned above, some IAFs hire recent college graduates, while others take a different approach by hiring experienced business personnel. This latter approach is based on the assumption that in order to add value to the organization and to ensure that client needs are met, auditors with business experience should be brought in as new hires. These experienced business personnel may not have formal auditing, accounting, or financial skills, but the IAFs value the knowledge and expertise these employees bring with them. Other IAFs seek more experienced business people because of the candidates' ability to cope and deal with change. These new hires are believed to increase the level of sophistication within the IAF and set an example for other staff members who have difficulties making changes (Gray and Gray, 1996). Experienced business people can come from within or without the organization. The institutional knowledge insiders bring may give them an advantage over outsiders; however, outsiders may bring innovative ideas from other organizations (Gray and Gray, 1996). For instance, at Motorola a typical new hire has two to three years of industry or public accounting experience — she also usually has a CPA certification or an MBA degree (Stoner and Werner, 1995).

IAFs typically attempt to hire people who match the culture and needs of the organization. In doing so, the function must consider several factors, including the type of work it is engaged in (e.g., auditing v. consulting or both — see Chapter 4) and the organization's culture. Careful consideration of the demands placed on new hires by the nature of the audit and consulting tasks performed within the IAF may facilitate the hiring process (see section on task structure in this chapter). New hires must possess certain skills or have the aptitude to learn certain skills in order to be effective. This is particularly true in relation to technological skills that are becoming increasingly important in an internal audit setting. As the IAF becomes more complex and moves to providing consulting services for the organization, managers must continue to evaluate their human resource needs. For example, as the variety

and sophistication of internal audit services increase, hiring may shift increasingly toward more experienced business people (Stoner and Werner, 1995).

U.S. directors anticipate hiring over half (54.8 percent) of their new internal auditors from outside the IAF who have previous audit experience (Oxner and Kusel, 2002). This may reflect the trend in internal audit to hire more experienced personnel or it may be an indication that turnover has created demand beyond what recent college graduates can supply.

After determining what type of recruits the IAF wants to hire, the function must implement recruiting practices to attract desired candidates. It has been observed that some IAFs consistently hire the best available candidates while other IAFs struggle to attract qualified personnel and generally hire mediocre job candidates. IAFs that hire well-qualified candidates may have an attractive organizational culture or implement superior recruiting techniques. Little is currently known as to why some IAFs appear to be more successful than others in this regard.

Practitioners must also consider the size and growth rate of the pool of potential recruits. Educational requirements and other factors may limit the number of students choosing accounting as their field of study. Along these lines, both practitioners and researchers may find it interesting to explore the factors that influence students to consider a career in internal auditing.

Academic Research

The research on hiring and selection processes is extensive and covers issues such as personality predictors, interview methods, and performance criteria (Hough and Oswald, 2000). As an example, research has been done in general management settings to determine if experience is an important factor in hiring job applicants. Experienced recruits are evaluated more highly in most characteristics but new graduates have been shown to be more open minded and willing to learn (Rynes et al., 1997). Internal auditing provides an especially promising setting for research in this area because of the specialized skills and task sets that are required of internal auditors relative to general management settings.

Research Questions

- What characteristics of recent college graduates make them more or less effective as internal auditors? What about experienced business people? Other types of recruits?

- What internal auditor personality traits lead to better performance and less job stress?

- Evaluate the backgrounds of current internal auditors. What do they have degrees in? What are the individual and organizational determinants of these characteristics?

- How are training needs and costs affected by the types of candidates hired by the IAF? For example, will it cost more to train experienced business people who have little or no audit knowledge than recent college graduates with a background in accounting?

- Are some organizations more likely to hire a particular type of internal auditor? What are the characteristics of organizations and IAFs that help predict and explain hiring practices?

- What organizational characteristics attract qualified recruits? What are the characteristics of recruits hired by IAFs that act as a management training ground versus those hired by IAFs that are comprised of a core audit group?

Training

After the IAF hires appropriate personnel, these personnel must be adequately trained to perform the work. The *Standards* require auditors to "enhance their knowledge, skills, and other competencies through continuing professional development" (*Standard 1230*). Training is especially important as organizations implement new programs that are subsequently audited by the IAF. For example, in the late 1980s, American Standard instituted demand flow manufacturing based on just-in-time production systems. In order to prepare auditors to add value in auditing the organization's various operating functions, auditors received in-depth training in process mapping, quality management tools, business process reengineering, and just-in-time manufacturing principles (Stoner and Werner, 1995). The company adjusted training programs based on organizational changes and needs.

In many large organizations, auditors participate in formal in-house training programs. These include classroom-based training, distance learning through the Internet and video conferencing, mentoring, on-the-job training, etc. In addition to these programs, some organizations cross-train auditors on the job so that they can become familiar with the entire organization. The advantages and disadvantages of such an approach have not been rigorously documented or examined.

Other companies take a more hands-off approach to training and allow employees to develop their own training programs and to seek training outside the organization. This is especially true in smaller IAFs. In addition to using outsourced training programs, IAFs sometimes encourage auditors to seek training from professional organizations like The IIA. If auditors

seek outside training, they are typically encouraged to ensure that the training meets organizational objectives and personal goals. Research can explore the alignment between organizational goals and training programs, and the various ways in which training programs are selected in various functions.

Mentoring is another tool that IAFs often use to develop and train employees. Mentoring will often take place on an informal basis as junior auditors seek advice from more experienced personnel. The internal audit function may consider setting up a formal mentoring program that pairs a junior and senior auditor together. The senior auditor can guide the junior in internal auditing work as well as show her "the ropes" of the organization (Ramamoorti et al., 1999).

Preparing employees to pass professional certification exams is another form of training. This can be done by the IAF itself, or, as mentioned above, auditors can go outside the organization to receive this training. Many IAFs encourage employees to obtain these certifications and reimburse employees for training and test expenditures (Campbell, 2001). Researchers interested in professional certification issues should refer to The IIA's annual *CIA Survey*, which focuses on such issues as changes in and perceptions of the CIA program, employer support of certification, and demographics of CIAs. Information can be found in the survey report regarding the structure of the CIA certification, how it is administered, the extent and nature of incentives to become certified, and other issues that could lead to interesting and potentially fruitful research questions (also see Gramling and Myers, 1997).

In addition to training programs that are designed to provide internal auditors with the technical skills necessary to successfully perform their duties, many functions also provide their auditors with training aimed at developing management and consulting skills. This is due in part to the fact that many internal audit clients are demanding more value-added services from the IAF.

Because of the diverse background and experiences of many new hires, the IAF may find it difficult to develop a single training program that meets the needs of all of its employees. For example, a recent college graduate with an accounting degree will have different training needs than an experienced business person. Understanding how various IAFs deal with these different needs, and evaluating the effectiveness of these different approaches, is important for practitioners, and represents an important area to which researchers might contribute.

Academic Research

Analyzing the structure of internal audit tasks can help IAFs develop effective training programs for their auditors. Abdolmohammadi and Usoff (2001) use complexity as one factor for categorizing audit tasks. They argue that complex tasks should be identified so training can be developed to help professionals learn how to perform these tasks. Abdolmohammadi and Usoff assert that poor performance is often attributable to the fact that professionals do not have the opportunity to gain sufficient knowledge and skill with respect to the tasks they are asked to accomplish.

This may be especially true for complex tasks for which there are no well-developed methods of measuring task performance. Since in these cases outcome feedback does not allow auditors to improve performance, task-specific training may be the only way to help auditors learn these skills (Bonner and Walker, 1994). Formal training programs based on designing and implementing an appropriate level of task structure may facilitate learning from experience and help avoid expensive errors in practice (Abdolmohammadi and Usoff, 2001).

It may also be possible to measure the effectiveness of training programs. For example, one organization has developed a spreadsheet that allows them to compute the ROI for training programs and compare one training program to another (Anonymous, 2002).

Research in the external audit field has examined how training affects auditor knowledge acquisition. For example, Earley (2001) finds that two training programs combined are better than either one alone at improving knowledge acquisition in complex auditing tasks.

Research Questions

- What approaches, types, and methods of training are most effective at improving internal auditor performance? What work environment, organizational culture, and other factors affect this relationship and determine the types of training offered?

- What is the value of employing personnel who have certifications, or helping employees become certified? How can the benefits and costs of employee certifications be measured?

- What are the individual and organizational determinants of certification for internal auditors?

- How can the alignment of training programs to the IAF's goals and objectives be measured and monitored?

- What are the costs and benefits of different approaches to training in internal auditing? For example, what are the costs and benefits of cross-training programs in which auditors temporarily switch places with employees from other parts of the organization?

- Is mentoring an effective training practice in internal auditing? What factors (personality types, incentives, etc.) determine the effectiveness of mentoring?

Analyzing Task Structure

Audit departments must understand the nature of the tasks performed in audit and consulting engagements. A careful analysis of generic tasks performed by internal auditors may help IA managers make effective staff assignments. While little is known about how IAFs deal with these issues, task structure has been researched in several different fields.

Academic Research

Extensive work has been done to document audit task structure and complexity (see Bowren, 1998) and to identify the knowledge required to complete various audit tasks. Much of this work is summarized in *The Assessment of Task Structure, Knowledge Base, and Decision Aids for a Comprehensive Inventory of Audit Tasks* by Abdolmohammadi and Usoff (2001). The book contains an inventory of audit tasks classified by task structure as well as a description of the knowledge needed to perform each task. The book discusses appropriate decision aids for each task and posits "several research hypotheses about the positive relationship between task structure as an independent variable and audit experience, professional rank, supervised instances of practice, and decision aids as dependent variables." In the book's preface, Arnie Wright notes, "Auditing practitioners may use the data to consider the proper staff assignment of personnel on various tasks, to consider the desirability of developing new decision aids, and to evaluate the need for (and level of) professional training." Task analysis may provide similar benefits to internal audit practitioners. In the external audit setting, the level of audit task structure has been shown to affect the experience level of auditors assigned to the task (Prawitt, 1995), and has been shown to interact with auditor personality characteristics to affect job performance (Hyatt and Prawitt, 2001). Some of the work done in external audit task analysis will apply to internal audit, but researchers can profitably identify, analyze, and document tasks that are unique to the IAF, and examine the related issues (see next section for a related discussion concerning The IIA's *Competency Framework*).

Effective task analysis may also benefit internal audit staffing practices and internal audit training and hiring practices — areas that are discussed in other parts of the chapter.

Research Questions

- Do IAFs vary along the dimension of audit structure, as identified in public accounting firms? If so, what are the determinants and effects of this variation in internal auditing?

- Describe and catalog individual internal audit tasks and categorize them in terms of task structure and other important task variables. This could lead to a variety of possible researchable issues. For example, what are the implications for the use of decision aids for various tasks in internal auditing?

- What factors influence the assignment of various audit tasks to audit staff?

- How does task structure differ between assurance and consulting tasks, and what are the effects of these differences (e.g., in terms of staffing assignments, use of decision aids, level of role ambiguity, etc.)?

- What decision aids are used in internal auditing and how are they different from those used in external auditing?

Necessary Skills

The *Standards* indicate that: "Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities" (*Standard 1210*).

In an effort to ensure that internal auditors posses the skills and qualities that enable them to perform their responsibilities, in 1999 The IIA published a set of reports collectively known as the *Competency Framework for Internal Auditing (CFIA)* (Birkett et al., 1999A). *CFIA* was developed through a series of questionnaires sent to IA experts around the world. The result of these questionnaires is a comprehensive listing of competency standards that delineate the "attributes of a competent internal auditing function, in the light of global 'best practice' [and] the capabilities required of key role-takers in a competent internal auditing function."

The competency standards include tasks that must be performed to "meet the functional requirements of the field of practice" (Birkett et al., 1999A). *CFIA* also discusses the attributes internal auditors must possess in order to make it possible for them to competently perform these tasks. These attributes are separated into two areas: cognitive and behavioral skills, which are each separated into three subcategories. Cognitive skills consist of technical skills, analytic/design skills, and appreciative skills. Behavioral skills consist of personal skills, interpersonal skills, and organizational skills.

Table 1 presents a brief description each of these subcategories.

Table 1
Skills Required of Internal Auditors
(adapted from Birkett et al., 1999A)

Cognitive Skills Technical Skills	Following defined routines with some mastery.
Analytic/Design Skills	Problem identification or task definition and the structuring of prototype solutions or performances.
Appreciative Skills	Making complex and creative judgments, often in situations of ambiguity.
Behavioral Skills Personal Skills	Handling oneself well in situations of challenge, stress, conflict, time pressure, and change.
Interpersonal Skills	Securing outcomes through interpersonal interactions.
Organizational Skills	Securing outcomes through the use of organizational networks.

CFIA also presents a comprehensive list of attributes that fall under each category. These attributes are further separated into those that entering internal auditors, competent internal auditors, and internal auditing management should possess. Table 2 is a reproduction of the table included in Birkett et al., 1999A. This table can be useful for practitioners as they identify qualified recruits, develop training programs, and promote personnel. An understanding of these skills and attributes may also benefit researchers as they study and research related issues.

Table 2. Individual Attributes Required of Internal Auditors

Key: *Entering Internal Auditor – Italics*
Competent Internal Auditor – Normal Type
Internal Auditing Management – Bold Type

Technical Skills	Analytic/Design Problem Structuring and Solving Skills	Appreciative Skills Judgment/ Synthesis	Personal Skills	Interpersonal Skills	Organizational Skills
* *Using information technology* - *database systems* - *spreadsheets* * *Communication* - *literacy/writing* - *structuring reports* * *Using relevant statistical methods* * *Understanding of organizational dynamics* * *Understanding of theories of risk* * *Understanding of theories of organizational control* * Using information technology - audit software * Apply control system designs and procedures * Documentation of internal audit work	* *Logical reasoning* * *Ability to conceptualize* * *Problem analysis/ structuring* * *Research skills (finding, accessing, and assessing data)* * *Using data in problem solving* * *Linking evidence to arguments and conclusions* * Analyzing commercial and financial data * Basic analysis of accounts and accounting reports * Systems analysis and review * Internal audit requirements analysis/definition * Using sophisticated analytic models in support of internal audit judgment	* *Recognize importance of/in data* * *Sorting out the relevant (e.g., in data, evidence)* * *Judging whether information is sufficient, supportive of opinions* * *Observant/aware* * *Critical thinking* * *Able to be concise/ succinct* * *Accepting of new/ other's ideas* * *Strives for continuous improvement in self* * Finding all that is relevant * Sorting out productive, central lines of inquiry * Seeing anomalies and recognizing their implications * Sensing the significance of issues	* *Honesty* * *Integrity* * *A-political* * *Inquisitive* * *Questioning* * *Balanced (not blinkered) in line of inquiry* * *Not dogmatic* * *Has initiative* * *A self-starter* * *Intelligence* * *Open minded* * *Flexible* * *Adapting to circumstances* * *Effecting change in self* * *Creativity* * *Objective* * *Positive attitude to technology* * *Sociable* * *Confident* * *Enthusiasm* * *Accepting of responsibility*	* *Communication* - *awareness of audience* - *listening* - *oral* - *interpersonal* * *Presentation skills* * *A team player* * *Learning from others* * *Handling frustration for self* * *Discretion/tact* * *Empathy* * *Diplomacy* * *Supportive of others* * *Culture sensitivity* * Communication - persuasiveness * Influencing, persuading, motivating, changing others * Leaderships - of teams, groups * Handling an adversarial role	* Finding way around organizations * Attaining a knowledge of the business (products, strategies, processes, markets, risks) * Adapting internal audit work to a wide range of organizational systems, methods, and standards * Negotiating the application of professional standards * Adding commercial value * Making productivity gains * Marketing internal auditing services * Using sophisticated technologies/ approaches in managing internal audit work

Table 2. Individual Attributes Required of Internal Auditors (Cont.)

Technical Skills	Analytic/Design Problem Structuring and Solving Skills	Appreciative Skills Judgment/ Synthesis	Personal Skills	Interpersonal Skills	Organizational Skills
* Using/reviewing accounting procedures/ principles * Apply laws and regulations * Apply internal auditing technologies and procedures * Using/reviewing accounting principles/ procedures * Master of new information technologies * Understanding key principles of specialty fields, including - Environmental management systems - Quality management systems - Information Technology controls	* Using industry-specific databases in the internal audit process * Using comprehensive internal auditing approaches * Using extra-organizational information in the internal audit process * Using non-financial evaluation methods in internal audit work * Designing control systems * Organizational analysis - Strategies - Functions (financing, marketing, production) - Structures - Processes - Risks - Controls * Using models in analysis	* Seeing the internal audit process as a whole * Locating particular problems or situations in terms of more global contexts/ responsibilities * Making associations, thinking outside the square * Comprehending internal audit in the context of business * Discriminating between substance and form * Disciplining imagination * Sensing/serving client needs and expectations * Having a sense of practicability, materiality * Assessing the risk associated with internal audit assignments	* Making it happen * Ability to handle pressure * Time management * Decisive * Able to stand ground * Stress management * Patience * Persistence * Dedication * Intuitive/gut-feel * Tenacity * Determination * Handle/welcome change * Proactive * Assertive * Professional demeanor * Pushing the limits * Incisive * Anticipation	* Handling multi-tasking * Able to diffuse conflict, conflict resolution * Ability to calm a situation * Handling frustration for others * Manage intra-group dynamics * Defines requirements (for team, others) * Securing control * Coaching/mentoring * Develop others * Manage inter-group dynamics * Delegation - within teams * Conducts meetings * Facilitation * Liaison/negotiation - within team - for team	- TQM - project management - time management - using performance criteria - benchmarking - planning * Scheduling * Coping with international transactions, structures and legal arrangements * Building/using relationships and networks * Adding client value * Building trust *** Managing internal audit work** *** Using organiza-tional power sources, and structures** *** Delegations** **- within function**

Table 2. Individual Attributes Required of Internal Auditors (Cont.)

Technical Skills	Analytic/Design Problem Structuring and Solving Skills	Appreciative Skills Judgment/ Synthesis	Personal Skills	Interpersonal Skills	Organizational Skills
	* Adapting internal audit methodologies for evaluating controls in computer systems * Validating assumptions/ projections underpinning plans and decisions * Developing prototype solutions to problems *** Development of technologies for reducing audit risk** *** Designing new internal audit technologies for systems analysis and evaluation** *** Developing internal audit technologies for assessing business risk** *** Developing methodologies and databases for establishing performance criteria and measuring performance**	* Coping with increasingly complex transactions, regulations and organizations * Adapting to revised expectations about internal audit processes and outcomes * Risk awareness * Interpreting relevant laws and standards * Applying disciplinary understandings and research findings to internal audit work * Extending judgment over time (projection) * Knowing what should be there * Sensing what is not there * Making syntheses from isolated evidence * Employing a sense of perspective * Taking a strategic view, seeing the macro as well as the micro			*** Reading the culture and politics of an organization** *** Liaison and negotiation – for function** *** Leadership - of the function** *** Using consulting entrepreneurial approaches in selecting areas of internal audit work** *** Expanding internal audit work into new areas (requiring new skills)** *** Human resource management** *** Strategy formation (for function)** *** Structuring change productivity** *** Championing empowerment**

Table 2. Individual Attributes Required of Internal Auditors (Cont.)

Technical Skills	Analytic/Design Problem Structuring and Solving Skills	Appreciative Skills Judgment/ Synthesis	Personal Skills	Interpersonal Skills	Organizational Skills
	*** Design of risk management systems**	* Being street wise (applying a sense of commercial reality) * Business acumen * Cope with information overload * Able to see big picture * Expect/cope with the bizarre * Desire for win-win * Making sense of complex situations * Managing complexity * Seeks to add value * Seeks to instill quality * Juggling inconsistent priorities * Strives for continuous improvement in others *** Developing and using criteria to promote consistency in judgment** *** Making complex, multivalued judgments in the absence of data and with probabilistic inferences only**			

Technology skills are extremely important in internal auditing. The importance of these skills was accentuated by the responses of survey participants to questions regarding technology. Almost 95 percent of the participants agreed that computer literacy/proficiency will be increasingly required to perform work in the internal audit profession, and over 96 percent of the participants felt that information technology is of central importance in the performance of internal auditing work (Birkett et al., 1999B).

All of these skills are important for outsourced and in-house internal auditors, but some may be more important for one group than another. For instance, outsourced internal auditors may need to possess better organization skills as they balance the demands of several clients. Researchers may profitably examine which skills are more or less important for each group. *CFIA* may also be helpful to researchers examining issues relating to IAF human resource strategies.

Academic Research

Most of what is known about the knowledge internal auditors must possess to be successful is summarized in the reports that develop *CFIA*. Although these reports develop this framework, they do not attempt to test its applicability in practice. This provides researchers with an opportunity to evaluate the relationship between auditor performance and the attributes identified in the framework. In addition to these reports, studies have attempted to identify the attributes of expert internal auditors (Abdolmohammadi and Shanteau, 1992). Research in the external audit realm has also attempted to identify the characteristics and qualities of audit expertise and explain how this expertise is obtained and how it relates to auditor performance (e.g., Bonner et al., 1990). Researchers can also explore the different skill sets and auditor qualities needed for auditing versus consulting engagements.

Research Questions

- What skills are necessary to be a successful internal auditor? Researchers can use the information in *CFIA* as a starting point in examining necessary skills and competencies of internal auditors. Researchers can also use the extensive body of expertise literature in the external audit environment as a starting point and then identify key differences in the internal audit environment to generate relevant research questions.

- How is the required skill set of internal auditors changing?

- What skills are more/less important for outsourced versus in-house internal auditors?

- How is technology changing the necessary skill set of internal auditors?
- What role do decision aids play in supplementing or substituting for necessary skills in internal auditing?
- How do the *CFIA* skill sets relate to different human resource strategies? For example, how do IAFs using different human resource strategies achieve competence in terms of *CFIA*?
- What skills are important for consulting vs. assurance engagements?

Management of Knowledge Resources in the IAF

Internal audit personnel represent the IAF's critical resource and their skills must be evaluated and employed effectively. Managing the IAF's intellectual resources goes beyond simply providing internal auditors with training and seeing that they have the necessary skills to complete their work. It involves utilizing auditor skills in the most effective way possible by deploying them in areas and engagements where their skills will meet the needs of their clients (Gibbs, 1998).

One important part of managing the IAF's knowledge resources is tracking and appropriately deploying auditor skills. Some large audit functions use databases that store employee background information including relevant skills, projects completed, acquired training, development needs, and career interests. In some cases, the database information is accessible to the entire function. One company uses a skill matrix that documents the skills possessed by each member of the IAF. The assessments are made by managers and by the staff themselves. The information can then be used to staff engagements with auditors possessing the appropriate skills (Roth, 2000).

Another important part of knowledge management in an IAF is measuring the effectiveness of these staffing procedures. For example, the IAF can attempt to measure effectiveness of staffing practices by tracking employee satisfaction, turnover, average tenure, the number of requests for permanent assignments of audit personnel, and the number of employee improvement initiatives. To the extent such data is made available for research purposes, researchers could assist in evaluating various approaches to knowledge management within the internal auditing profession.

Internal audit managers are not usually able to make staffing decisions based solely on matching the person to the engagement, but must also consider time and resource constraints.

With the increasing importance of internal auditing's consulting role, audit managers must simultaneously consider the differences in skill sets required in consulting versus assurance tasks. Little is known about how this is done in practice.

Academic Research

Several articles and books have been published on knowledge management (Choo and Bontis, 2002). In an accounting setting, Summers et al. (2000) evaluate the "fit" between auditing and consulting services and the problem-solving style of accounting professionals. The study found that those professionals with innovative problem-solving styles experienced less role stress when performing consulting engagements than when performing audit engagements.

Research Questions

- How do managers assign tasks to internal auditors in practice?
- How is information about task characteristics used to make effective staffing assignments?
- What are the factors that determine which tasks are assigned to which auditors?

Sourcing and Other Flexible Staffing Arrangements

Up to this point, the chapter does not address how IAFs cope with a shortage of adequately skilled auditors. Additionally, the chapter has not discussed the alternative work arrangements that many functions, including IAFs, are offering their employees. The *Standards* recognize these potential challenges: "Staffing should be based on an evaluation of…the available resources" (*Standard 2230*).

When IAFs face a shortage of qualified auditors, they frequently turn to professional services firms that can place skilled internal auditors on the job site. This practice is called cosourcing. Cosourcing is often used for two reasons. First, the IAF may simply lack an appropriate number of auditors to complete the required work. Second, the IAF may have a sufficient number of personnel to complete the work, but it may not have auditors that possess the skills required for the job. This second situation may arise, for example, if the IAF is asked to deal extensively with information systems or other complex areas of the organization. In some extreme cases, the parent organization may decide that the best course of action is to completely outsource the IAF.

Cost is usually one of the major issues for an organization attempting to decide whether to completely outsource the IAF or to maintain it in-house. By outsourcing the IAF, an organization essentially converts the costs of maintaining an in-house IAF to the fee it pays the professional services firm to perform its internal audit work. Practitioners and researchers continue to debate whether outsourcing is a better utilization of firm resources. In many cases, the characteristics of the individual firm will determine whether outsourcing is a viable option. See Chapter 8 for a more detailed discussion of the outsourcing/cosourcing decision many IAFs face.

Another option available to the IAF when faced with a shortage of qualified people is called insourcing—bringing in people with specific expertise from other areas within the organization. In many cases, these individuals will not have auditing skills, but the IAF has need for their specialized knowledge and expertise. For example, Exxon used insourcing to help them cope with and learn from the problems stemming from the Valdez disaster by bringing in an experienced ship captain to help develop controls and other safety procedures to prevent similar disasters (Anderson, 1991). This technique can be especially useful in auditing information systems by adding to the IAF's available technology expertise.

The *Standards* specifically allow for these practices — "The chief audit executive should obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement." (*Standard 1210.A1*)

Because of the changing demographics of today's workforce, many employers offer flexible staffing arrangements to their employees. These include flexible work schedules, telecommuting, and other arrangements (Gray and Gray, 1996). Often, these arrangements are designed to reduce turnover or meet other needs. If this is the case, the IAF should develop means to determine if flexible staffing arrangements meet these objectives.

Academic Research

The pros and cons of outsourcing the IAF have been explored, and The IIA has published a study examining and describing the nature and effects of outsourcing the IAF (Rittenberg and Covaleski, 1997). Researchers can contribute to this line of research by developing theories and applying academic research techniques to better understand the costs and benefits of outsourcing and other practices such as cosourcing and insourcing (Caplan, 2000).

Research has shown that some flexible staffing arrangements lead to reduced costs (Houseman, 2001). Ziegenfuss and Klayton (1995) evaluate the suitability of telecommuting

to the internal auditing profession, and conclude that, if the IAF's sponsoring organization is highly computerized, it will be more likely to adopt and benefit from telecommuting arrangements.

Research Questions

- How widespread are alternative staffing strategies within the internal auditing profession?
- What characteristics of the IAF and parent organization determine the nature and extent of flexible staffing arrangements used?
- Can auditors who utilize alternative staffing options such as telecommuting be effective team members? What are the characteristics of effective flexible staffing arrangements?
- Can flexible staffing arrangements yield cost savings in the internal audit environment?
- What kinds of internal audit tasks are more amenable to flexible staffing arrangements?
- What effects do different flexible staffing arrangements have on the employee (productivity, career advancement, on-the-job training, job satisfaction, etc.)?
- Can agency theory provide insights as to why an organization might choose to outsource or maintain an in-house IAF? (Adams 1994, p. 11).

Performance Measurement

Although the *Standards* discuss monitoring the quality of the IAF as a whole, they do not elaborate on the need for evaluating the performance of individual auditors. However, measuring and assessing the performance of individual internal auditors is important in monitoring the effectiveness of recruiting and selection methods, making pay raise and promotion decisions, evaluating training programs, and determining training needs. Additionally, as IAF leaders assess the performance of individual auditors they will simultaneously gather important information to help them control the performance of the IAF as a whole.

Performance measurement policies and procedures vary widely among IAFs and can be designed to meet various needs. In large organizations, these procedures and performance

appraisal results will likely be documented in order to organize and keep track of employee progress. In other smaller organizations, the procedures may be more informal. IAFs that utilize teams will need performance measurement procedures that allow managers to assess team and individual performance.

Because performance measures are powerful tools in influencing employee behavior, great care should be taken in developing performance measures that solicit desired behavior. Ultimately, performance measures should motivate auditors and audit teams to add value to the organization while maintaining their independence and objectivity. Among other things, auditors can be evaluated based on customer satisfaction, quality of the audit as determined by managers, level of continuing education, certifications, etc.

Sometimes internal auditors' performance is evaluated in part by post-audit client evaluations of the auditor. Post-audit surveys and similar measurement instruments may introduce a conflict of interest between auditors and auditees. Auditors may alter their recommendations and suggestions in order to receive more favorable post-audit surveys from auditees. This may create a conflict of interest if auditor performance evaluations or compensation decisions are based on these surveys.

Academic Research

Much research has been conducted regarding performance measurement systems and how to design and implement them in practice (Neely, 2002). Some research has attempted to determine the value of specific performance measures (Hemmer, 1998). Similar research can be performed to determine which performance measures properly motivate internal auditors to meet organizational objectives, and which may prove to be ineffective or problematic.

Research Questions

- Which performance measures are most effective for individual internal auditors and internal audit teams?

- What are the determinants of how different IAFs measure internal auditor performance?

- Which performance measures are most effective in providing incentive to internal auditors and aligning their goals with those of the organization?

- Which performance measures and techniques are more likely to compromise internal auditor independence?

- Does performance measurement that involves auditee evaluation of the individual auditor affect the auditor's judgments and findings?

Compensation

Compensation is important for improving individual and organizational performance and for attracting and retaining valuable employees. Because of the important role of compensation in organizations, many firms have attempted to create compensation systems that yield a competitive advantage in hiring and retaining human capital. IAFs utilize a variety of compensation systems, including traditional salary based systems, pay for skill, and pay for performance incentives. Unlike external auditors, internal auditors may even participate in company stock-based incentives.

As discussed previously in this chapter, IAFs hire several different types of employees. The IAF's compensation plan must take these differences into account, along with related employee motivation and morale issues. The compensation systems of IAFs must also take into account structural changes occurring in the profession. For example, the internal auditor's job description is changing and expanding — auditors are performing a wider variety of services for their organizations, they are working together in teams to complete engagements, and the nature of their work is being affected by technology.

Academic Research

A great deal of research into compensation design and related issues has been done in the organizational behavior and human resource areas (Rynes and Gerhart, 2000). A limited amount of research has been done relating specifically to compensation issues for internal auditors, and much of it relates to the issues surrounding incentive pay. For example, Nash and Flesher (1997) argue that, "The willingness to pay incentive compensation to internal auditors is perhaps recognition that auditors are more involved in operational-type audits than in pure financial audits. With financial audits, the auditors might be in a position to 'overlook' income-enhancing errors, while in an operational audit, the incentive compensation would encourage auditors to look for revenue enhancements and cost saving opportunities. Incentive compensation thus makes the auditor more a part of the management team." Researchers interested in these issues should also see DeZoort et al. (2001), who examine the impact of the internal auditor's role and compensation on the external auditor's planning decisions.

Research Questions

- How do internal auditors' compensation expectations change as they assume more responsibility, gain more experience, and perform more complex tasks?
- How do performance-based incentives affect internal auditor independence and objectivity?
- What types of compensation systems effectively encourage continual learning and other organizational objectives?
- What insights can agency theory provide with respect to how internal auditors should be compensated?
- What compensation issues are faced by IAFs that use the management-training-ground model, and how do they handle those issues? What about compensation issues surrounding use of other human resource strategies?

Retention

The turnover an organization experiences is at least partially determined by its staffing techniques. For example, IAFs that are used as a training ground for management will naturally experience high turnover. Retention goals and objectives will differ significantly among IAFs that are used as a management training ground, or that use other human resource strategies. Even if used as a management training ground, retention of the group of core auditors must also be addressed.

To improve retention, many internal auditing functions attempt to provide rich career environments by giving employees challenging assignments. They seek to provide auditors with a broad range of experiences by rotating auditors among different assignments, allowing auditors to implement solutions to the problems they find, and giving auditors international work assignments (DeZoort et al., 2000). Many IAFs attempt to improve job satisfaction and retention by increasingly allowing auditors to exercise their creativity and participate fully in all aspects of assurance and consulting work.

Academic Research

The factors that lead to retention in organizational settings have been widely researched (e.g., Cappelli, 2001). Retention and related issues may be particularly important in the IA

setting because turnover tends to be high especially in IAFs that are used as a management training ground.

Research done in other fields has shown that employees tend to stay with a company if they have a high level of "organizational commitment." Additionally, turnover among staff is higher if there is a high level of turnover in the management ranks (Downey et al., 2001).

Nouri and Bird (1999) suggest that the internal audit profession use the Myers-Briggs Type Indicator to assess internal auditor personality types and then use this information to match internal auditors to engagements. The article contains an exhibit that summarizes which types of auditors are most suited for certain tasks. Nouri and Bird argue that matching auditors to tasks by their personality types may improve retention as internal auditors experience less role stress (see also Hyatt and Prawitt, 2001).

Research Questions

- What staffing techniques are effective in retaining internal auditors? For example, are internal auditors who work in teams or who are engaged in a wider variety of tasks more likely to stay with the organization? If auditor skills or personalities are matched with specific tasks, does retention improve?

- Will cosourcing affect the organizational commitment an internal auditor feels toward the organization? Do IAFs that cosource experience lower or higher turnover?

- How is the turnover of "core" employees affected by use of the management training ground model?

- Do personal or organizational characteristics explain which people are more likely to remain career internal auditors?

V. Leading

Leadership

The success of the IAF may depend to a great extent on the leadership abilities of internal audit executives and managers. Due to the unique position of the IAF within the organization some leadership traits are likely more important than others. The IAF is a support function that exists to create real value for the parent organization. IAF leaders must have a vision of

the status they want the IAF to achieve within the organization. They must then communicate this vision to internal auditors, management, and line employees (Griffen, 2002).

Other important characteristics IAF leaders must possess are integrity and ethical behavior. Without integrity, IAF leaders cannot expect their auditors to provide the organization with objective, independent assurance and consulting services. This quality lends credibility to internal auditors' work and creates a favorable "tone at the top" for the IAF. The internal auditing environment offers a variety of promising opportunities for ethics-related research.

Finally, internal audit leaders must be able to create an organizational culture within the IAF that motivates employees to create real value for the organization. In some departments, managers allow or even require subordinates to evaluate manager performance. These managers claim that upward reviews allow them to receive useful feedback and communicate their commitment to employees (Gray and Gray, 1996). Additionally, some IA managers involve staff in all meaningful decisions, allow staff to interact with company executives, encourage open communication and creativity, promote core values and ethics, and give recognition and praise for performance (Roth, 2000).

CFIA provides several skills and attributes that are important for internal audit managers. Unlike the general leadership attributes discussed previously, these attributes apply specifically to leaders within the IAF. Please refer to the bolded attributes in Table 2.

Academic Research

Research on effective leadership, leadership style, and other related topics is extensive (e.g., see Dansereau and Yammarino, 1998). Leadership styles have been documented and extensively researched. For example, one line of research divides leaders into two broad categories — those who focus on building positive relationships and those who focus on achieving results. Within these two categories researchers have delineated several leadership types and have attempted to identify the styles that are most effective in any given situation, but no evidence supports one leadership style over another in all situations (Chorn, 1991). The most effective leadership style has been found to be highly dependent on the situation and surrounding circumstances, suggesting a variety of research opportunities in internal audit environments with various characteristics and forms.

Research Questions

- What leadership styles are most effective in an internal audit setting? For example, are internal audit leaders who focus on results generally more effective than leaders who focus on building relationships?

- What are the characteristics of CAEs that are chosen in different organizations, and what characteristics are important to the success of the IAF?

- Is there a relationship between the level of ethical development of internal audit leaders and the ethical behavior of their subordinates? What is the nature of that relationship?

- How does the role of ethics and acceptable business practices vary among IAFs in different cultures, and how are these issues handled in multinational organizations?

Communication

While important in any organizational context, communication is particularly important to an IAF for three reasons. First, open and detailed communication between the IAF and the board contributes to effective organizational governance. The internal audit standards state: "The chief audit executive should report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan" (*Standard 2060*).

Second, effective communication is essential for developing "client" relationships. Whether the IAF is serving the board, management, or some other party, it must clearly define and communicate its activities to these parties. For example, in a survey conducted by PricewaterhouseCoopers, 68 percent of the respondents said that internal auditors' value-adding activities were not communicated clearly (PricewaterhouseCoopers, 2002). Internal auditors can improve communication with their clients by providing timely feedback, holding pre- and post-engagement meetings to discuss client needs, involving business unit staff to complete various aspects of the engagement, and proactively communicating about problems that arise during the audit (Gray and Gray, 1996).

Finally, internal auditors continuously interact with each other in teams and other settings. Effective communication is needed to coordinate audit work and achieve objectives. Effective communication is particularly important as audit managers give feedback to and receive input from subordinates (Griffen, 2002).

Academic Research

Geiger and Raghunandan (2002) find that among external auditors with longer tenure, there are significantly less audit reporting failures than among auditors who had not been with a client for an extended period of time. Analogous effects may occur in the internal auditing environment. Learning and communication may both play significant roles in developing an effective client/auditor relationship over time in both external and internal settings.

Research Questions

- What communication patterns do effective IAFs establish with management and with the board?
- How do communication processes in IAFs that do a significant amount of consulting differ from those in functions that are primarily assurance oriented?
- How does communication between the IAF and management and the board differ depending on whether the IAF is outsourced?
- Does a relationship analogous to that found in Geiger and Raghunandan (2002), between audit tenure and audit failure, apply in internal audit?

VI. Controlling

Measuring and Controlling the Performance of the IAF as a Whole

"Control is the regulation of organizational activities so that some targeted element of performance remains within acceptable limits" (Griffen, 2002). Although the IAF is part of the organization's control framework, it must also have its own control framework in place to monitor its compliance with its role and with other important goals and objectives. The *Standards* indicate that, "The CAE should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness." (*Standard 1300*). The *Standards* go on to say that the quality assurance program must monitor the IAF in two primary ways. First, the program should help the IAF add value and improve the organization's operations. Second, the quality program should act to help the IAF comply with the *Standards*.

One of the key ways that the IAF can add value and improve the organization and its governance is to successfully fulfill the IAF's role, defined in conjunction with management and the board of directors. The IAF should develop methods to track its progress in fulfilling the goals and objectives established in that role. For instance, performance measures that deal with the quantitative nature of assurance services may be useful and can include the following: the number of reports issued, percent of the work plan completed, percent over/ under budget, etc. These performance measures must be carefully planned and designed in order to communicate and support the IAF's role and strategy. To do this, some IAFs have begun to initiate balanced scorecards that attempt to capture and measure the key drivers of internal audit success (Wong, 2000).

In addition to these numerical measures, IAFs sometimes send post-audit surveys to staff and managers of the business units. Some functions even conduct post-audit interviews with clients to help ensure that the IAF is providing valuable services that meet organizational objectives (Roth, 2000).

Academic Research

The Institute of Management Accountants conducts an annual survey on performance measurement. The latest survey as of this writing focused on the effectiveness of performance measurement systems in supporting organizational strategy (Frigo, 2002). Surveys like these can provide a starting point for researchers as they look for trends in performance measurement systems that are successful in helping organizations control IAF performance. Researchers have also attempted to evaluate different performance measurement systems using procedures other than survey data. This type of research can shed light on why one performance measurement system outperforms another (Neely, 2002).

Research Questions

- What are the common definitions of success or failure in an IAF? Which performance measures accurately measure the success or failure of an IAF?

- How do IAFs measure output, cost savings, and quality?

- Which parties should ultimately evaluate the performance of the IAF? Agency theory suggests that the principal (board of directors, shareholders) should ultimately be responsible to evaluate the agent's (the IAF's) performance. Does this happen in practice, or does the other agent (management) often evaluate the IAF? Why?

- How might a balanced scorecard approach be applied effectively in measuring the performance of an IAF?

- What are the determinants of how organizations measure the performance of their IAFs?

VII. Summary

This chapter provides summary information on what is currently known about how IAFs are managed and staffed. It also suggests questions that may be useful in sparking specific research ideas that might be fruitfully formulated and investigated. It does not attempt or purport to be complete and comprehensive. Rather, its aim is to stimulate thinking about possible research ideas by highlighting potentially interesting practices and issues within the broad area of managing and staffing an IAF. Managing and staffing the internal audit function in a manner that improves and facilitates organizational governance and performance is a tremendously complex undertaking, and very little academic research has been done to understand and investigate the determinants and the effects of the various management and staffing approaches being used. This combination of complexity and lack of rigorous understanding signals a tremendous opportunity for researchers to contribute in meaningful ways. Appendix I consolidates the research questions listed throughout the chapter in an accessible format. It is the author's hope that the discussion and questions provided in this chapter will spark further thinking and research about the important and interesting issues surrounding managing and staffing an IAF.

VIII. Appendix I: Chapter Research Questions

Organizational Level Planning

- How do internal audit plans identify and attempt to mitigate organizational risks?
- In helping management identify organizational risks, what internal auditor characteristics, heuristics, and background lead to more effective risk assessment?
- External auditors are commonly emphasizing a top-down, broad-based view of risk assessment. How is the focus of internal auditors different from that of external auditors in identifying organizational risk? Are internal auditors better or worse at identifying organizational risk than external auditors? Why?
- What training techniques, if any, can help internal auditors gain the ability to effectively identify organizational risks?
- How does planning for IAFs that perform a significant amount of consulting work differ from planning for IAFs that perform primarily assurance work?
- How does the IAF/management relationship vary across countries and cultures?

Planning Individual Engagements

- What characteristics of engagement planning (e.g, timing, people involved, scope, etc.) improve the effectiveness of internal audit engagements? How do these characteristics vary among financial audits, operational audits, and consulting engagements?
- What are the returns to planning internal audit engagements? How do these returns compare to those documented in the external audit setting?
- What are the cost drivers of an internal audit engagement? Can knowledge of these drivers be used to help practitioners accurately estimate the cost of an engagement?
- How is engagement planning different for assurance versus consulting engagements? (See Chapter 4 of this monograph.)

- Does obtaining participation and buy-in during the planning phase affect client attitudes, cooperation, and audit effectiveness?

- What is the optimal engagement length? Does this differ among organizations and industries? (Anderson et al., 1994)

- What auditor characteristics improve the auditor's ability to identify relevant engagement risks?

The Structure of the IAF

- Does the presence of a CAE contribute to effective corporate governance? For example, do organizations with a CAE who reports to the board of directors experience less fraud, external audit failure, etc., than organizations with no CAE or a CAE who reports to management?

- Does combining IA with other assurance functions (security, quality control, etc.) facilitate communication and reduce redundancies? What are the other effects of such combinations?

- What is the optimal span of control for the IAF? How many managers should the IAF have, and how many auditors should they supervise?

- What type of structure facilitates communication in the internal audit function? For example, do IAFs with a CAE and several layers of management communicate more frequently with their employees, external auditors, and clients? What factors influence the quality of communication?

- Reduction in middle management may cut costs, but will it improve effectiveness and efficiency? For example, how will this reduction affect employee morale?

- How do IAFs that do not allow for growth within the function handle career advancement issues? How do these factors affect the types of people who are attracted?

- Does reducing middle management change the number and characteristics of people applying for positions within internal auditing? If a company reduces middle management, is the IAF more likely to serve as a training ground for company management?

- Is IAF size correlated with audit quality?
- Does the size of the IAF impact its reporting structure? For example, do large IAF functions typically have CAEs?
- How effective are the different approaches to organizing the IAF? Will the most effective structures be different in complex governance situations?
- Can agency theory provide insights that help explain the type of structure, as well as the size of, the IAF within different organizations? (Adams, 1994).

Audit Teams

- What characteristics of internal audit work make the use of teams effective? What are the characteristics of internal audit tasks that are more/less suited to teamwork?
- To ensure performance and efficiency, how should teams be selected in an internal audit setting (self-selection, skills matched with job, etc.) and how large should the team be for particular work environments, task settings, and tasks? How long should internal audit teams remain together for different types of tasks?
- Can a self-managed internal audit team effectively handle the management responsibilities that may have previously belonged to a single person?
- What practices help teams make effective decisions in an internal audit setting? What team member characteristics improve team decision-making abilities? How does the use of teams affect on-the-job training?
- How do self-directed teams manage the potential problem of "diffusion of responsibility"?
- How can the performance of internal audit teams be measured?
- Are the conclusions and opinions of an internal audit team seen as more credible, objective, and relevant than those of an individual internal auditor?

The IAF as a Management Training Ground

- Some IAFs act as a training ground for future managers, while others do not. This provides rich potential for comparisons across IAFs on several dimensions. For example, researchers can explore the effectiveness of using the IAF as a training ground both in terms of management preparation and IA effectiveness. At the broadest level, how does using the IAF as a management training ground affect organizational governance?

- Along what dimensions do management trainees and core auditors differ? Some examples may include personality variables, educational background, approaches to problem-solving, nature of relationships with auditees, and attitudes toward independence and objectivity. What types of employees make the best core group of auditors? What types of employees make the best management trainees?

- Teams may include both management trainees and core auditors. How effective are these teams in comparison to other teams?

- Does using the IAF as a management training ground improve recruiting? Why? For example, are higher quality recruits attracted to the IAF if it acts as a management training ground than if it does not?

- Is serving in the IAF an effective way to prepare management trainees to become managers? Why?

- How long should management trainees remain in the IAF?

- Does agency theory shed light on why some organizations use the IAF as a management training ground while others do not? What issues arise when agents who are hired to monitor another agent (management) expect to be later funneled into management positions themselves?

- What are the organizational and IAF characteristics that can predict whether the IAF will be used as a management training ground?

Hiring

- What characteristics of recent college graduates make them more or less effective as internal auditors? What about experienced business people? Other types of recruits?

- What internal auditor personality traits lead to better performance and less job stress?

- Evaluate the backgrounds of current internal auditors. What do they have degrees in? What are the individual and organizational determinants of these characteristics?

- How are training needs and costs affected by the types of candidates hired by the IAF? For example, will it cost more to train experienced business people who have little or no audit knowledge than recent college graduates with a background in accounting?

- Are some organizations more likely to hire a particular type of internal auditor? What are the characteristics of organizations and IAFs that help predict and explain hiring practices?

- What organizational characteristics attract qualified recruits? What are the characteristics of recruits hired by IAFs that act as a management training ground versus those hired by IAFs that are comprised of a core audit group?

Training

- What approaches, types, and methods of training are most effective at improving internal auditor performance? What work environment, organizational culture, and other factors affect this relationship and determine the types of training offered?

- What is the value of employing personnel who have certifications, or helping employees become certified? How can the benefits and costs of employee certifications be measured?

- What are the individual and organizational determinants of certification for internal auditors?

- How can the alignment of training programs to the IAF's goals and objectives be measured and monitored?

- What are the costs and benefits of different approaches to training in internal auditing? For example, what are the costs of cross-training programs in which auditors temporarily switch places with employees from other parts of the organization?

- Is mentoring an effective training practice in internal auditing? What factors (personality types, incentives, etc.) determine the effectiveness of mentoring?

Analyzing Task Structure

- Do IAFs vary along the dimension of audit structure, as identified in public accounting firms? If so, what are the determinants and effects of this variation in internal auditing?

- Describe and catalog individual internal audit tasks and categorize them in terms of task structure and other important task variables. This could lead to a variety of possible researchable issues. For example, what are the implications for the use of decision aids for various tasks in internal auditing?

- What factors influence the assignment of various audit tasks to audit staff?

- How does task structure differ between assurance and consulting tasks, and what are the effects of these differences (e.g., in terms of staffing assignments, use of decision aids, level of role ambiguity, etc.)?

- What decision aids are used in internal auditing and how are they different from those used in external auditing?

Necessary Skills

- What skills are necessary to be a successful internal auditor? Researchers can use the information in *CFIA* as a starting point in examining necessary skills and competencies of internal auditors. Researchers can also use the extensive body of expertise literature in the external audit environment as a starting point and then identify key differences in the internal audit environment to generate relevant research questions.

- How is the required skill set of internal auditors changing?

- What skills are more/less important for outsourced versus in-house internal auditors?

- How is technology changing the necessary skill set of internal auditors?

- What role do decision aids play in supplementing or substituting for necessary skills in internal auditing?

- How do the *CFIA* skill sets relate to different human resource strategies? For example, how do IAFs using different human resource strategies achieve competence in terms of *CFIA*?

- What skills are important for consulting vs. assurance engagements?

Management of Knowledge Resources

- How do managers assign tasks to internal auditors in practice?

- How is information about task characteristics used to make effective staffing assignments?

- What are the factors that determine which tasks are assigned to which auditors?

Sourcing and Other Staffing Arrangements

- How widespread are alternative staffing strategies within the internal auditing profession?

- What characteristics of the IAF and parent organization determine the nature and extent of flexible staffing arrangements used?

- Can auditors who utilize alternative staffing options such as telecommuting be effective team members? What are the characteristics of effective flexible staffing arrangements?

- Can flexible staffing arrangements yield cost savings in the internal audit environment?

- What kinds of internal audit tasks are more amenable to flexible staffing arrangements?

- What effects do different flexible staffing arrangements have on the employee (productivity, career advancement, on-the-job training, job satisfaction, etc.)?

- Can agency theory provide insights as to why an organization might choose to outsource or maintain an in-house IAF? (1994, p. 11).

Performance Measurement

- Which performance measures are most effective for individual internal auditors and internal audit teams?
- What are the determinants of how different IAFs measure internal auditor performance?
- Which performance measures are most effective in providing incentive to internal auditors and aligning their goals with those of the organization?
- Which performance measures and techniques are more likely to compromise internal auditor independence?
- Does performance measurement that involves auditee evaluation of the individual auditor affect the auditor's judgments and findings?

Compensation

- How do internal auditors' compensation expectations change as the auditors assume more responsibility, gain more experience, and perform more complex tasks?
- How do performance-based incentives affect internal auditor independence and objectivity?
- What types of compensation systems effectively encourage continual learning and other organizational objectives?
- What insights can agency theory provide with respect to how internal auditors should be compensated?
- What compensation issues are faced by IAFs that use the management-training-ground model, and how do they handle those issues? What about compensation issues surrounding use of other human resource strategies?

Retention

- What staffing techniques are effective in retaining internal auditors? For example, are internal auditors who work in teams or who are engaged in a wider variety of tasks more likely to stay with the organization? If auditor skills or personalities are matched with specific tasks, does retention improve?

- Will cosourcing affect the organizational commitment an internal auditor feels toward the organization? Do IAFs that cosource experience lower or higher turnover?

- How is the turnover of "core" employees affected by use of the management training ground model?

- Do personal or organizational characteristics explain which people are more likely to remain career internal auditors?

Leadership

- What leadership styles are most effective in an internal audit setting? For example, are internal audit leaders who focus on results generally more effective than leaders who focus on building relationships?

- What are the characteristics of CAEs that are chosen in different organizations, and what characteristics are important to the success of the IAF?

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Measuring and Controlling the Performance of the IAF as a Whole

- What are the common definitions of success or failure in an IAF? Which performance measures accurately measure the success or failure of an IAF?

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- How might a balanced scorecard approach be applied effectively in measuring the performance of an IAF?

- What are the determinants of how organizations measure the performance of their IAFs?

Footnote

[1]Adams (1994) discusses the role of agency theory in explaining the role of internal auditing within different organizations. He proposes that agency theory can be used as a framework to explain several phenomena within the internal auditing profession. Several of the research questions introduced in the chapter can be seen through the lens of agency theory.

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