

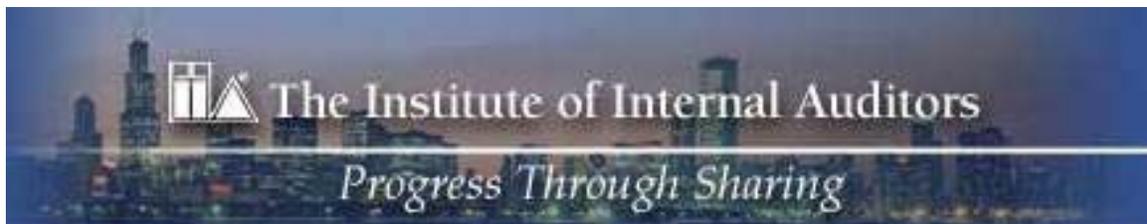
Internal Audit Independence and Corporate Governance

**A Research Study
Submitted To**

The Institute of Internal Auditors

From

**The
CHICAGO
Chapter**



April 30, 2003

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Research Committee**

Abstract

The financial reporting and corporate governance arenas have been in an uproar. Some external actions through the U.S. Security and Exchange Commission and U.S. Congress as well as professional organizations, e.g., AICPA, IIA, and FEI are attempting to regain trust and stability in the financial markets. One of the strongest means to monitor financial reporting, ethics, and governance is the internal audit groups in corporations. The Chicago Chapter of the IIA conducted a survey of its member companies to determine what are current practices, desired practices and the gaps related to internal audit independence, scope, and Sarbanes-Oxley compliance monitoring.

An e-mail survey was sent to member companies. Nine research propositions were developed. Eight of the nine propositions received full or partial confirmation. In general, the internal auditors indicated that the audit committees need to be more proactive in internal audit reporting and chief audit executive personnel matters. Internal audit scope should include strategic issues as well as confirming the review of internal controls being designed into business applications. The results clearly stated that internal auditors want and already have taken an aggressive position to participate in monitoring compliance with the Sarbanes-Oxley act. Further research is needed to gather input on similar issues from the audit committee, CEO, and CFO stakeholders. At this point, however, the results demonstrate that internal auditors are ready and already active in the challenge to rebuild trust in financial reporting and markets.

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The Principal Researcher gratefully acknowledges the assistance by Saurabh Tandon who performed the statistical analyses for this report.

INTRODUCTION

The aftershocks from the Enron debacle continue to reverberate, e.g., Tyco announced additional \$1.1 billion accounting charges related to its fire and safety business unit (WSJ: 4-29-2003). Depressed public confidence in United States corporate governance and financial reporting quality continues to be a critical public policy challenge. Significant institutional changes are being implemented to improve financial reporting and corporate governance. The U.S. Congress passed the Sarbanes-Oxley Act of 2002 (SOA) that empowered the U.S. Securities and Exchange Commission (SEC) to establish and oversee a new Public Company Accounting Oversight Board. This board now is fully staffed. The Board's responsibilities include establishing or adopting auditing standards, evaluating the practice quality of registered public accounting firms, and monitoring compliance with Audit Committee's stated responsibilities. Furthermore, the New York Stock Exchange has proposed that each listed company have an Internal Audit function.

Although much of the media's attention has focused on public financial reporting, external auditing, and board of directors' audit committees, the Internal Audit function represents another invaluable resource. The Institute of Internal Auditors (IIA) offers the following definition of internal auditing:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

An internal audit function could be viewed as a "first line defense" against inadequate corporate governance and financial reporting. With appropriate support from the Board of Directors' Audit Committee, the internal audit staff is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls, and ineffective corporate governance. The SOA (Sect. 301) strengthens prior professional and regulatory pronouncements related to creating a strong Board Audit Committee. The members must not be part of management and include one financial accounting expert. Through its professional standards (Attribute Standard 1110) and practices, the IIA has been a strong advocate for the internal audit group to report (functionally) to the Board Audit Committee (IIA, 2002d).

The *functional reporting* line for the internal audit function is the ultimate source of its independence and authority. As such, The IIA recommends that the CAE report functionally to the audit committee, board of directors, or other appropriate governing authority.

With the support from both the SOA and the IIA, the internal audit group could be a major asset for improving public confidence in financial reporting and corporate governance. *Are internal audit groups prepared to grasp this opportunity?* The following sections of this report describe the research study objectives, methodology, results, and conclusions.

Research Study Agenda

Given the number of public and private sector initiatives to strengthen financial reporting and corporate governance, the IIA Chicago Chapter Research Committee completed a survey of its member companies to compare their current and desired practices for these issues. The *general research proposition* is that:

The Sarbanes-Oxley Act will influence internal auditors' desired judgments toward:

- a. a broader scope of audit responsibility
- b. a higher level of functional reporting, and
- c. an increased Board Audit Committee involvement in Internal Auditing

The survey addressed three groups of issues. The first set is:

- Who *has* and *should have* responsibility for the “governance” of internal auditing?
 - CFO
 - COO
 - CEO
 - Board Audit Committee
 - related to these activities:
 - Administrative and functional reporting
 - Approving the audit charter
 - Hiring and firing of the CAE
 - Setting CAE compensation

Administrative and functional reporting—The historical reporting relationship between Internal Auditing and the CFO began to change during the latter 20th century. The CFO as well as other heads of business units continue to need to know what is right and wrong with their finances and operations within their scope of company responsibility. The IIA defines this relationship as *administrative* reporting (IIA, 2002d). The increasing frequency of financial reporting and external auditing failures, however, motivated the Internal Auditing profession to seek greater independence for its actions and judgments. Again, the IIA supports the *functional* reporting [please refer to p. 5, Practice Advisory quote] by the CAE to the Board Audit committee (IIA, 2002d). Thus, the research proposition is:

P1: Functional reporting preference will shift from current senior officers to the Board Audit Committee

P2: Administrative Reporting preference will extend to the Board Audit Committee and retain the present report links with senior management

This second proposition represents internal audit's desire to keep the Board Audit Committee more fully informed of its activities and findings.

Approving the Audit Charter—The IIA pronouncements (IIA, Professional Attribute Standard 1000; IIA, 2001c) state that the Board Audit Committee approve with senior management the Audit Charter (example at IIA, 2003a). Further, the CAE should support the Audit Committee's responsibility (IIA, 2002c). With the current financial reporting improvement climate, it is anticipated that internal auditors will seek audit charter approval from the Board Audit Committee. The research proposition is:

P3: The desired preference for internal audit charter approval by the Board Audit Committee will be greater than the present practices

Appointing and Removing the CAE—Independence of the internal audit function is at risk if an auditee, e.g., CFO has responsibility for hiring (CAE indebted to CFO) and firing (CAE hesitant to criticize CFO). Thus, the IIA has stated the Board Audit Committee should participate in these responsibilities (IIA, 2001b; 2002c). The research question here posits a stronger position: whether the Board Audit Committee should have the authority, not concurrence in these decisions.

P4: The desired preference for the hiring and the removing of the CAE reside with the Board Audit Committee

Setting the CAE Compensation: A similar position can be taken for who has the responsibility for setting CAE compensation. The IIA recommends that the Board Audit Committee *approve* the CAE compensation (IIA, 2002d). Again, the SAO climate should favor CAE compensation set by the Board Audit Committee:

P5: The desired preference for setting the CAE compensation reside with the Board Audit Committee

The second set of issues is:

- What *is* and *should be* the scope of internal auditing?
 - Financial activities
 - Operational activities
 - Strategic initiatives
 - Regulatory compliance
 - Information system control design

The first four items in the above list represent the spectrum of internal audit scope. Over the years, the pendulum between financial and operational auditing emphases has swung back and forth. The recent financial reporting and public accounting quality problems may reduce internal auditor's reliance on the public accountant's audit program. Compliance audits also have increased with the growth in regulatory requirements. One interesting area is strategic activities. A PricewaterhouseCoopers report describes this internal audit opportunity as (PWC, 2002):

Internal audit departments need to ensure their organisational posture allows them to operate successfully on strategic issues. This means both the independence and the mandate to deal with significant, strategic business risks and issues. If inappropriately positioned within the company, internal audit deals with tactical issues and is viewed only at that level. Inappropriate positioning can also raise serious concerns about the overall independence of the function.

Since much of the financial reporting problems have related to strategic issues, the research proposition is:

P6: Desired internal audit scope will extend to include strategic issues in contrast with existing internal audit scope

For years, internal audit has been challenged by the conflict between evaluating the appropriateness of internal controls under design vs. loss of perceived independence. With more companies operating, to some degree, as an extended enterprise in the network economy, minimization of software development errors becomes even more critical. Internal auditors also could assess the (1) test design and execution, (2) completeness and usability of documentation, and (3) adequacy of training (Rishel, 2003). For this study, the research question was limited to the participation by internal auditors, quality assurance, and external auditors review of information systems controls under development. The research proposition is:

P7: The desired preference for internal audit involvement in information systems control design review will increase

The third set of issues is:

- What is and should be the internal auditing role for implementing SOA?
 - Monitoring Board approval of CPA firm non-audit services
 - Monitoring restrictions on CPA firm staff joining the company
 - Monitoring Board Audit Committee qualification compliance
 - Administering a “whistle-blower” hotline

The first three activities are required by SOA to be performed by the Board Audit Committee. Given the pivotal role of an independent audit committee, should the internal audit function monitor compliance with these actions? This internal audit role is not specified by the SOA.

Additionally, the Board Audit Committee is required to receive complaints regarding accounting, ethical, and financial reporting irregularities. Although internal audit again could monitor compliance, some of the Chicago Chapter Board members suggested that Internal Audit *administer* the “hotline.” The rationale was based upon Internal Audit’s independent position in an organization and its likelihood for conducting the investigation. The Board Audit committee would continue to be the owner of the content and the process. The research proposition is:

P8: The desired preference by internal auditors to monitor SOA compliance and to administer a hotline will be greater than current practices.

Since SOA formally applies to publicly-traded companies, it is expected that these respondents will more strongly support the SOA and Independence issues.

P9: Publicly listed companies will more strongly support internal audit independence and SOA support issues?

Thus this research provides a baseline for Chicago area companies’ current practices as well as their preferred practices. As appropriate, the results will be discussed in relation to the Global Audit Information Network (GAIN) studies on (1) internal audit reporting relationships and audit scope (June 2002), and (2) Impact of SOA on Internal Audit (Feb. 2003).

Research Methodology

A proposal for conducting this research was presented, discussed, and approved by the Chicago Chapter Board. An e-mail survey was a more efficient means to elicit responses to a structured set of questions. The survey instrument was sent to the Board members for review. Five additional items were added to the survey and one clarification was made regarding Functional and Administrative reporting. The survey (Appendix A) was distributed electronically as an attachment to an e-mail “cover letter”. Fifty-three of the two hundred-forty companies responded. This 22% response rate is comparable to the 23% response rate of the GAIN June 2002 study and better than the 14% response rate of the February 2003 GAIN study.

Where were the internal audit groups located in their organizations?

Location	Frequency	%
Corporate	44	83
Business Unit	4	8
Consultants	4	8
Non-response	1	1
Total	53	100

What was the staff size of the internal audit groups? [N=43; mean= 12.1; range = 1:80]

Staff Size	Frequency	%
1-5	23	52
6-12	10	23
13-19	2	5
20-34	3	7
35-49	2	5
50+	3	7

What were the internal audit job positions? [N=53]

Internal Audit Position	Frequency	%
Chief Audit Executive	33	62
Manager	8	15
Staff	7	13
Consultant	4	8
Non-responses	1	2

Is the company publicly listed?	YES	34/64%	NO	19/36%
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How many years of internal auditing experience?	<11yrs	26/51%	11-35yrs	25/49%
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What industries are represented among the respondents?

Industry	Frequency	%
Manufacturing	18	34%
Other Services	11	20%
Financial Services	15	28%
Government	3	6%
Health Care	3	6%
Universities	3	6%

What percentage of the internal audit activities is outsourced?

Of the 22 companies that outsource, 28% is the mean with a range of: 10%-75%. If the entire 53 company sample is the reference base, 1.5% is the mean outsourcing level.

The composite demographics indicate: more smaller size internal audit groups at the corporate level with upper level management and limited outsourcing.

Survey Results

The responses were input to a set of EXCEL spreadsheets for analysis. Since the collected data were substantially frequency count (or nominal scale) data, a non-parametric analysis method, Cochran's Q was used to compare the IS and SHOULD (or desired) responses. This test accommodates repeated measures, i.e., each respondent answered a question from both perspectives of a current practice and then a desired practice. The actual frequency counts are reported with any contrasts [is~should] that are statistically significant. Respondents could select more than one report recipient (column) if that was the current or preferred practice. Thus, a row total may be greater than 53, number of respondents. Also, one respondent only answered the first ten questions, but was retained in the response pool. The OTHER responses are not reported unless unusual.

Independence and Governance

P1: Functional reporting preference will shift from current senior officers to the Board Audit Committee *Confirmed*

Functional Reporting	CEO	COO	CFO	Board, Audit, Comm	Other
1. Internal Audit presently reports to:	6	1	8	35*	5
2. Internal Audit <i>should</i> report to:	2	0	3	46*	1

Although the CEO and CFO had decreased preferred functional reporting, the differences were not statistically significant. The increased preference for functional reporting to the Audit Committee was statistically significant (Q=11, k=2, p.<.01). This research proposition was confirmed since the current counts for senior management already were small. Thus, a statistically significant decrease would be unlikely. These current practice results are comparable to the GAIN study (IIA, 2002b):

Position	Chicago	GAIN
Audit Committee	58%	55%
CFO	15%	17%

P2: Administrative Reporting preference will extend to the Board Audit Committee and retain the present report links with senior management *Confirmed*

Administrative Reporting	CEO	COO	CFO	Board, Audit, Comm	Other
1. Internal Audit presently reports to:	11	0	29*	5*	8
2. Internal Audit <i>should</i> report to:	19	1	13*	13*	6

The expected increased preference for reporting to the audit committee to provide more complete information was confirmed statistically (Q=8, k=2, p<.02). There is a risk that information overload could occur unless the operational reports are summarized with an option to obtain more detail. The increased preference for reporting to the CEO was not statistically significant, but in the expected direction. The unexpected decrease in reporting to the CFO (Q=14.2, k=2, p<.001) is somewhat troublesome, but may be a temporary backlash to the recent financial reporting crises.

The GAIN study current practice results again share similar patterns:

Position	Chicago	Gain
Audit Committee	9%	10%
CEO	21%	20%
CFO	55%	45%
Pres/COO	0%	13%

Please note that the Chicago desired Preference for the CFO drops to 25%.

P3: The desired preference for internal audit charter approval by the Board Audit Committee will be greater than the present practices *Confirmed*

Internal Audit Charter Approval	CEO	COO	CFO	Board, Audit, Comm	Other
7. Who approves the Internal Audit Charter:	8	1	8	44*	7
8. Who should approve the Internal Audit Charter:	6	2	3	51*	4

The results support the research proposition that greater preference for audit committee approval of the internal audit charter will occur (Q=7, k=2, p<.03). There was some non-significant decrease in support for the CEO and CFO.

P4: The desired preference for the hiring and the removing of the CAE reside with the Board Audit Committee *Confirmed*

CAE Appointment & Removal	CEO	COO	CFO	Board, Audit, Comm	Other
5. Who hires and fires the CAE?	13	11	23	26	6
6. Who <i>should</i> hire and fire the CAE?	8	1	9	45	4

The results support a significant decreased preference for the CFO (Q=13.2, k=2, p<.005) and increased preference for the Audit Committee to appoint and terminate an existing CAE (Q=17.2, k=r, p<.001). This statement is stronger than the IIA's recommendation for Audit Committee to participate in hiring and firing decisions. The Gain survey (IIA, 2002b) reported that 64% of the audit committees, as opposed to Chicago Chapter's current 36% and desired 67%, participate in the CAE hiring and firing decisions.

P5: The desired preference for setting the CAE compensation reside with the Board Audit Committee *Confirmed*

CAE Compensation	CEO	COO	CFO	Board, Audit, Comm	Other
3. Who sets compensation for the CAE:	12	0	31*	8*	6
4. Who <i>should</i> set compensation for the CAE:	10	0	14*	33*	4

As predicted, the results show both a statistically significant decreased preference for CFO (Q=16, k=2, p<0001) and a significant increased preference for the Audit Committee (Q=25, k=2, p<.0001).

The results supporting P1->P5 must be qualified in that this is one perspective. The views of the other parties have not been collected and compared (e.g., CFO, COO, and CEO).

The results comparing the current and preferred distribution of internal audit reports disclosed no significant differences. There was no research proposition.

Report Distribution	CEO	COO	CFO	Board, Audit, Comm	Other
9. Presently Internal Audit reports are sent to: [in addition to the relevant audited Dept. Mgr.]	38	25	40	32	23
10. Internal Audit reports <i>should</i> be sent to:	40	28	39	35	20

Internal Audit Scope

P6: Desired internal audit scope will extend to include strategic issues in contrast with existing internal audit scope *Confirmed*

Internal Audit Scope	Financial	Operational	Strategic	Regulatory Compliance
13. In addition to the above two questions, what is the scope of Internal Audit:	45	49	19*	36
14. In addition to the above two questions, what <i>should be</i> the scope of Internal Audit:	45	46	35*	38

The survey results support greater emphasis on strategic issues (Q=11.6, k=2, p<.001). As expected from the financial reporting and corporate governance failures, more internal audit attention should be directed to business strategy and major deals. If this door opens, the internal auditor will gain a deeper understanding of the business strategy to facilitate other audit work.

P7: The desired preference for internal audit involvement in information systems control design review will increase *Confirmed*

IS Controls Review during Development	None	IA Staff	QA Staff	External Auditor
15. Information System controls design is reviewed by:	2	41*	9*	24
16. Information System controls design <i>should be</i> reviewed by:	0	50*	22*	26

The results support increased involvement by both Internal Audit (Q=9, k=2, p<.02) and Quality Assurance (Q=13.2, k=2, p<.002). The current practices report 77% internal audit involvement and 17% for quality assurance. The respective desired preferences increase to 96% and 42%. Thus, the biggest stakeholder increase is QA through the internal audit view.

These results are consistent with the findings from the GAIN February 2002 survey (IIA, 2002a). Some relevant results are:

- During the prior 3 years, 71% of the respondents had participated in 2 to 5+ system development engagements
- 97% strongly disagreed that internal audit involvement be limited to post-implementation reviews
- 60% believed that internal auditors should not be involved in system design
- 77% believed that internal auditors should be involved in testing
- 80% believed that internal auditors should act as consultants

The consistent position supports proactive early involvement as a reviewer, not designer.

SOA Compliance

P8: The desired preference by internal auditors to monitor SOA compliance and to administer a hotline will be greater than current practices. *Confirmed*

	Survey Questions 11 & 12	None	Under Discussion	Active
What is the role of Internal Audit in verifying compliance with the Sarbanes-Oxley Act, e.g.,				
(a)	Board pre-approval of CPA firm's non-audit activities: current	10	10	26*
(ap)	Board pre-approval of CPA firm's non-audit activities: desired	5	3	37*
(b)	CPA firm personnel limitations on joining the company: Current	21	7	17*
(bp)	CPA firm personnel limitations on joining the company: Desired	10	2	31*
(c)	Board Audit Committee member qualifications review: Current	25	12	8*
(cp)	Board Audit Committee member qualifications review: Desired	12	3	29*
(d)	Administering a "Whistle-Blower" Hotline Current	14	19	14*
(dp)	Administering a "Whistle-Blower" Hotline Desired	9	4	32*
(e)	Quarterly/Annual certifications by CEO and CFO Current	7	11	26*
(ep)	Quarterly/Annual certifications by CEO and CFO desired	2	0	41*

These results are encouraging for two important trends emerge across all five SOA activities:

- internal auditors want to be actively engaged in monitoring the above specified SOA requirements. This last, right column displays increases in current active discussions to desired active discussions that are statistically significant (all 5 differences: is~should at or above $p < .03$)
- The decrease in the None and Under Discussion columns reinforces internal auditor's desire to move inertia or discussion into an active participation mode.

Even the "whistle-blower" responsibility is endorsed by these respondents. It is important for internal audit to be actively involved in SOA monitoring, rather than being a spectator. These results are encouraging.

P9: Publicly listed companies will more strongly support internal audit independence and SOA support issues?

The comparisons between current and desired practices that demonstrate statistical significance are listed below for the Publicly listed (N=34) and Private (19) companies.

Public Companies

Question	Current	Desired	Cochran Q	Significance Level
Administrative reporting: CFO	21	12	7.36	P<.03
Functional Reporting: Audit Committee	24	31	7	P<.03
Setting CAE Compensation: CFO	23	12	9.31	P<.01
Setting CAE Compensation: Audit Committee	6	24	18	P<.001
CAE hire & fire: CFO	17	7	8.3	P<.02
CAE hire & fire: Audit Committee	21	30	7.4	P<.03

These results offer partial confirmation for this proposition. Overall the publicly traded companies already have enacted some of these independence and SOA provision. Thus, the differences between current and desired practices are fewer than the overall results. Nonetheless, the Functional reporting to the Audit Committee continues as a significant change as well as fewer administrative reports to the CFO. The preferred swap from CFO to Audit Committee continues for the CAE compensation and Hiring-firing activities.

Private Companies

Question	Current	Desired	Cochran Q	Significance Level
Administrative reporting: CFO	8	1	7	P<.03
CAE Compensation: CFO	8	2	6	P<.05
CAE Compensation: Audit Committee	2	9	7	P<.03
CAE hiring & firing: Audit Committee	5	15	10	P<.01
Audit scope: strategic issues	6	16	10	P<.01
Audit scope: regulatory compliance	22	32	10	P<.01
Reviewing system controls: Internal audit	13	19	6	P<.05
Reviewing system controls: QA	5	13	8	P<.03

For administrative reporting the decreased preference to the CFO is consistent with public companies. Setting the CAE compensation, likewise, is unfavorable to the CFO and favorable to the Audit Committee. The hiring decisions also are favored for the Audit Committee. Both strategic issues and regulatory compliance become desired components of audit scope (already important for the public companies). Both internal audit and QA are preferred for greater system control review pre-implementation.

Summary and Conclusions

During recent years, turmoil has occurred in financial reporting and corporate governance. Trust in the financial markets reached a significant low. Public accounting firms restructured, merged, and became bankrupt. There will be a significant period of time before trust in the financial markets returns. The SEC, U.S. Congress, AICPA, and FASB all have undertaken some form of action to return the financial markets to a more predictable environment.

Internal auditing with the strong support of the IIA and its member firms is in an excellent position to bring sanity back to the financial markets and reports. The Chicago IIA Chapter undertook a research study to determine its member's current practices and preferred practices towards audit independence, governance, audit scope, and SOA implementation. One pattern of results clearly demonstrated that internal auditors prefer a more active role by the Audit Committee and a less active role by the CFO in relation to audit reporting, audit charter approval, and CAE personnel matters. These results are consistent with the IIA Gain study in 2002.

The results also revealed that the internal audit scope should be extended to address strategic business issues as well as increasing some compliance audits. There is strong support for internal audit to play a major role in monitoring SOA compliance in a constructive manner. Chicago area internal audit groups already have taken significant steps to move past the discussion stages and have become actively engaged in SOA compliance monitoring.

This research study only captured a slice of Chicago area internal auditors' viewpoints—interesting, but incomplete. Further research needs to be undertaken to contrast CFO, CEO, and Audit Committee perspectives. Constructive change cannot occur without the understanding and buy-in from all the stakeholder groups. These results were quite encouraging. Hopefully all the key constituents will be on board to re-create a healthy financial reporting and corporate governance climate. These results indicate that the Chicago area internal auditors certainly are committed to a successful conclusion.

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Appendix A: Research Instrument
Internal Audit Independence and Corporate Governance
A Research Survey of and for IIA Chicago Chapter Members
March 24, 2003

In this period of financial reporting failures and increased regulatory scrutiny, the Internal Audit group has an exceptional opportunity to contribute toward improved both financial reporting integrity and corporate governance. Both the company’s Board of Directors and senior executives must re-affirm or improve Internal Audit’s independence and scope of inquiry.

Please complete and return this brief survey to Marty Bariff, Chicago Chapter Research Committee Chair (bariff@stuart.iit.edu) by March 31, 2003. Your responses will be treated confidentially. Only summary results will be published. If the response rate is sufficient, this study will be submitted to IIA International to compete for an award.

You can enter your responses, save the modified file, and return the attached file to Marty Bariff. You can use any word processor to enter your submissions. Thank you for your participation. If you have any questions, I can be contacted at (312) 906-6522.

Please note: If you are a consultant, not an internal auditor within a company, please respond to these questions based upon what you typically find amongst your clients.

[Please check (*) the appropriate column(s)]

(For Questions 1 & 2, please insert an **A** for the *Administrative* reporting relationship and an **F** for the *Functional* reporting relationship—where *Administrative* refers to daily operations of IA and *Functional* refers to the “ultimate source of IA independence and authority.” Pract Adv 1110-2)

Survey Questions (1-10)	<u>CE</u> <u>O</u>	COO	CFO	Board, Audit, Comm	Other
1. Internal Audit presently reports to:					
2. Internal Audit <i>should</i> report to:					
3. Who sets compensation for the CAE:					
4. Who <i>should</i> set compensation for the CAE:					
5. Who hires and fires the CAE?					
6. Who <i>should</i> hire and fire the CAE?					
7. Who approves the Internal Audit charter:					
8. Who <i>should</i> approve the Internal Audit Charter:					
9. Presently Internal Audit reports are sent to: [in addition to the relevant audited Dept. Mgr.]					
10. Internal Audit reports <i>should</i> be sent to:					

	Survey Questions 11 & 12	None	<u>Under Discussion</u>	Active
11.	What is the role of Internal Audit in verifying compliance with the Sarbanes-Oxley Act, e.g.,			
(a)	Board pre-approval of CPA firm's non-audit activities:			
(b)	CPA firm personnel limitations on joining the company:			
(c)	Board Audit Committee member qualifications review:			
(d)	Administering a "Whistle-Blower" Hotline			
(e)	Quarterly/Annual certifications by CEO and CFO			
(f)	Other:			
(g)	Other:			
12.	What <i>should be</i> the role of Internal Audit in verifying compliance with the Sarbanes-Oxley Act, e.g.,			
(a)	Board pre-approval of CPA firm's non-audit activities:			
(b)	CPA firm personnel limitations on joining the company:			
(c)	Board Audit Committee member qualifications review:			
(d)	Administering a "Whistle-Blower" Hotline			
(e)	Quarterly/Annual certifications by CEO and CFO			
(f)	Other:			
(g)	Other:			

Survey Questions 13 & 14	<u>Financial</u>	Operational	Strategic	Regulatory Compliance
13. In addition to the above two questions, what is the scope of Internal Audit:				
14. In addition to the above two questions, what <i>should be</i> the scope of Internal Audit:				

Any other tasks for the IA beyond the above scope? _____

Survey Questions 15 & 16	None	IA Staff	QA Staff	External Auditor
15. Information System controls design is reviewed by:				
16. Information System controls design <i>should be</i> reviewed by:				

17. Please provide your job title: _____

18. Your IA position is located at: ___ corporate , ___ an operating unit, ___ Other: _____

19. The size of the IA staff for the scope identified in Q. 18 is: _____

20. How many years have you worked in Internal Auditing: _____ years

21. Please provide your company name: _____

22. Is your company (or most of your consulting clients' firms) publicly traded? ___ Yes, ___ No

23. What % of your IA scope is outsourced, if any? ____% or ___ none

24. Any additional thoughts? _____

NOTE: If you are interested in receiving a copy of the survey results, please specify your e-mail:

_____@_____