

Full Length Research Paper

## Role of internal audit in managerial practice in organisations

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Owing to transactional evolution among business entities, mostly related to globalization, the internal audit function (IAF) has assumed a relevant role in the organisational context as it advises and supports management. In this scenario there is an inquiry into the activities of internal auditing related not only to the technical perspective but also to its contribution to the managerial duties. Thus, the current study aims to provide answers to the questions concerning: what is the perception of the management about the role of Internal Audit Function (IAF) in the managerial practice and decision making process in business entities and organisations at large? The study was restricted to non-financial institutions of the State of São Paulo with shares traded at Bovespa Stock Market. As primary data have been gathered through structured questionnaire, we adopted the descriptive approach for the treatment of the data. Based on our analysis, taking the perception of the management, IAF is a managerial enhancing tool, supporting the organisations to meet up with objectives, thus implying a contributively source of information derived from continuous assessment of strategic risks to strengthen the internal control systems for decision making.

**Key words:** Internal audit function, organisations, management enhancement tool, decision-making.

### INTRODUCTION

With the transformations experienced by the corporate world, virtually related to globalization, there has been increased competition between organisations which forced management to take decisions with greater confidence. This does not only mean to keep pace with the rate at which businesses are growing, but also to develop them in a more sustainable manner. Thus, to achieve these goals, it has been necessary to improve the management methods, tools and techniques enhanced by the internal auditing function.

The Internal Audit Function (IAF) fits into this scenario

because it is an important tool available to stakeholders, internal and externally, as it is construed as an ongoing function, in order to support management in monitoring and surveillance of the planned activities, in both productive and financial areas, evaluating and reporting improvements with respect to the weaknesses, aiming to add value to the organisation.

Recently, there has been a more sharply adoption of Internal Audit by Brazilian organisations, probably due to the emergence of more large conglomerates and the more the strength of internal auditors advisory function is

felt in the country's growth and as it is felt is similar emerging economies. Invariably it is as a result of a very large volume of business and operations within organisations that cannot be personally dealt with by the corporate management individually.

Thus, although the Internal Audit has arisen from the need for better monitoring of company activities, little is known about organisational managerial perception on the role that Internal Audit plays in the management practices and decision making.

In this context, this study was based on the answers to the following question: what is the perception of management on the role that Internal Audit plays in management practices and decision-making within the organisations? The present study has its relevance in exploring the role IAF is playing to mitigate the dissatisfaction of the business community after accounting and financial scandals which involved auditing as a whole and as has been notoriously publicised. These Media also showed situations where there have been failures by auditing, causing discredit to the activity. Additionally, there is the lack of academic researches on the role that Internal Audit has in management practices and decision making in organisations.

This research is aimed at provoking a reflection upon the contribution of Internal Audit Function in decision making in the organisations in order to bring greater credibility to this area of applied social sciences. We hope it inspires further researches on topics addressing Internal Audit Functions in the academic environment.

The study focused on non-financial organisations in the State of São Paulo, whose shares are traded at São Paulo Stock Exchange, excluding telephone organisations, sanitation, electricity and gas, because these organisations provide services of basic needs to the population and have a different administrative focus.

The delimitation of the research to the State of São Paulo was due to the fact that it is the Brazilian state with the highest concentration of organisations with shares traded at BM&FBOVESPA. This entity requires of the organisations in its portfolio a good organisational structure and high degree of disclosure, which somehow gave credibility to the data obtained.

## **THEORETICAL BACKGROUND**

### **Concept and objectives of internal audit**

It is barely impossible to conceptualise internal audit considering the diversity of its application in business entities. Even so, one would cite the concept provided by the Brazilian Institute of Internal Auditors (AUDIBRA, 1991, p. 33). Internal Audit is an activity of independent evaluation and management assistance, directed to the examination and evaluation of the adequacy, efficiency and effectiveness of the internal control system, as well

as of the quality of performance of the operational areas in relation to their tasks and plans, goals, objectives, and policies defined for them.

Noteworthy, that effectiveness means adequate exploitation of the resources to achieve the goals while efficiency means that required indexes were achieved using the minimum and necessary efforts. Thus, the internal auditor's opinion should state whether the entity is being effective and efficient in achieving its goals.

According to Vasconcelos and Pereira (2004, p. 69-70), the scope of binomial efficiency and effectiveness is a functional view that the organisation's stakeholders have of the Internal Audit work [...] The Internal Auditor, in our view, should monitor and seek to understand these dynamics and their effects on the economic and financial status. Therefore, we argue that this professional is the best suited to signal the potential risks of going concern of organisations considering operational anomalies.

That is, it would be up to him, based on analysis to provide a straight forward assistance in the monitoring of the financial situation. Our most important argument rests on the following premise: the internal auditor may propose directives and valuable information based on their historical data and rapport with the organisations' management.

Quoting CFC (2005) NBC TI 01, the Brazilian Federal Council of Accountants, characterizes the functions of Internal Audit: [...] as structured with technical, objective, systematic and disciplined procedures, that aims to add value to the results of the organisation, providing data for the improvement of processes, management and internal controls through the recommendation of solutions for nonconformities identified in the reports.

In this same way, CFC (2011) emphasizes the managerial support that internal audit has to provide so that business objectives are attained in a more adequate manner. This explicitly defines Internal Audit as an advisory body to the management of the entities, aiming to add value by providing data for improvement of management processes.

According to Mendes (1996, p. 9), the objective of the Internal Audit is, in particular, "[...] forming opinion about the criteria, procedures, methods and quantification, cost rationalization and providing information so that the top management decisions are based on concrete information." The decisions to be made by management always depend on good information, that is, accurate and timely.

The Internal Audit is an instrument of administrative control and systematic verification of the effectiveness and efficiency of occupational activities in the company; it evaluates the entity's internal controls and its administrative and occupational processes, analyzing the failures and the risk involved and gives broad based recommendations for remediation of anomalies. The Internal Audit work aims to protect the company's assets against frauds or intentional misstatements. Classified by

Moyes et al. (2013) as i) misstatements resulting from fraudulent financial reporting and ii) misstatement resulting from misappropriation of assets.

### Characteristics of the internal audit function (IAF)

The role of Internal Audit is presented through various concepts expressed by scholars with different characteristics of its functions and activities that converge to its main objective, which is to add value to organisations through assessments and advisory support to management.

Since WorldCom whistle-blowing and other financial scandals that besieged the stock markets in the last decade, internal audit has assumed a more important role. The NYSE now requires all companies listed there to maintain internal audit functions to provide management and the audit committee with ongoing assessment of the company's risk management process and of internal control, (Harrington, 2004 p. 65).

Thus, Internal Audit should be knowledgeable, insightful, have the method, and the intelligence to check the best for the company, aiming to add value with the least resources. Internal Audit should be "[...] a highly qualified adviser, which allows the management to have a systematic view of their organisation. It must be a unit engaged in achievement of end results (Mendes 1996., p. 9).

Authors such as Carvalho and Pinho (2004, p. 24), Vasconcelos and Pereira (2004, p. 68), who understand that the Internal Audit has a professional duty to issue independent opinions, justify the assumptions of technical skills and personal attributes required of the auditor, as well as the high level of demand from users and the need to add value to users of their services.

The IAF in the organisation is to review, evaluate and produce report containing information on all activities of the organisation, to assist the management in their decision making process. Internal Audit performs a task that shareholders would like to perform in order to be always aware of how their investments are managed.

Apart from overseeing the activities, based on the broad knowledge of the business, IAF could be used to substitute certain strategic functions most importantly when a need for rotation arises. Companies that have an IAF specifically hire internal auditors with the purpose of rotating them into management positions or cycle current employees into the IAF for a short stint before promoting them into management positions (Messier et al., 2011, p. 2131).

Vasconcelos and Pereira (2004, p. 70) emphatically point out that "[...] the exercise of Internal Audit is not a commodity. It is not a consumable service much less a mere cog. It is a potential value aggregator. "This characterization clearly demonstrates how valuable the internal function is when fully exerting its activities.

### Internal audit function adding value

It is of paramount importance to characterize what adding value is, so that we can analyze the contribution of Internal Audit to the management of the entities. The interpretation of value, in this study, is not only limited to the financial aspects; it is more comprehensive, as it includes human and physical aspects. So, to add value in the internal audit concept is to harness all available resources, within and outside the company, with an aim of assuring gains, which may be financial, material and human, and will assist management in fulfilling their goals.

Internal Audit Function may add value in various accounting processes where transactions are originated in an organisation. For instance, the evaluation of capital investments and their association with the capital budget when adequately checked to guarantee that such project is feasible tends to add value. Another value adding function is the assessment and or follow-up of the development and implementation of ERPs; which ensures the timing of the systems at an affordable cost and to meet up with operational necessities. The continuous auditing also adds value by installing the required technologies in the control environment to ensure that alerts are given when unusual transactions are run in the operational environment of the organisation. Directors believe that top management is appropriately defining the organisation's internal audit function, and that the profession should concentrate its effects on providing guidance and support. "...most of their audit departments have shifted toward a more value-added" (Nagy and Cenker, pp. 136, 2002).

Be it known that the wealth of knowledge acquired by the IAF during the auditing of the business, which makes one say that it knows it better than any other person in the organisation makes the IAF a training ground for the management posts.

The Internal Audit, when monitoring and assessing the adequacy of internal controls, as well as the rules and procedures implemented by management, becomes an ally of real value to the management. It is a tool that, according to Santos (2007, p. 9) "[...] plays a role of great importance, helping to eliminate wastes, simplify tasks, support management and report to management on the development of tasks performed". The thought is in line with the implementation of loss prevention nowadays when artefacts are installed to safeguard assets.

Whistle blowing has been termed as more effective when considering some tools monitored by IAF to track frauds and corruption, notwithstanding, internal audit collaborates in the minimisation of the risks of frauds and potential errors that could result in a material misstatement. The level of the IAF and the extent to which the IAF incorporates quality assurance techniques into fieldwork and audits activities related to financial reporting, monitors the remediation of previously identified

control problems. Also, the timing of Section 404 work and the nature of follow-up monitoring suggests that these aspects of IAF quality help prevent material weaknesses (MWs) from occurring (Lin et al., 2011, p. 287).

Internal Audit plays a strategic role in organisations because it aims to add value to the results of the organisation, providing information to improve risk management and internal controls procedures. It is considered one of the pillars of corporate governance as it provides evaluation services and consulting. In other words, it is an important piece to the management of organisations, since it matches the results obtained with the strategy and the action plan prepared by the company in order to identify threats and/or opportunities for the achievement of future results.

The existence of a good and active internal audit in the organisation is in itself a value-addition, considering that it could be used to reduce the amount of work that is required of the independent auditor with reference to IFAC 610. The usage of internal audit work by the independent auditors is generally considered in the extent deemed satisfactory to cover certain tests that ought to be corroborated by the engagement.

### Internal audit in the context of corporate governance

Internal audit is acting from the watch tower of the business operations in order to support the governance of the business. This occurs right from origination of economic, financial and accounting transactions, recoding and fulfilment of individual and collective responsibilities.

Meaning that right from inception, IAF is being identified as a tool that assures the workability of the corporate governance. Internal audit function (IAF) is an increasingly common internal governance mechanism, on a firm's financial reporting quality (Johl et al 2013).

Corporate governance seeks to identify ways to prevent the abuse of power by administrators. It monitors the relationship between management and shareholders by minimizing inequalities of information disseminated between these agents. It is in this context that internal audit plays a formidable role in minimising information asymmetry by abridging the relationship between the Supervisory Boards and the Audit Committee (AC) when available.

The Code of the Brazilian Institute of Corporate Governance - IBGC recognizes the importance of Internal Audit for entities, but does not ask that its absence be justified. However, in the chapters concerning the Administrative and the Supervisory Boards, it emphasizes aspects of Internal Audit. It highlights its responsibility when it mentions that Internal Audit is in charge of monitoring and evaluating the adequacy of the internal control environment and the rules and procedures established by the management. The auditors must act proactively on the recommendation to improve controls, standards and procedures, in line with the best practices. (IBGC, 2010,

p. 47)

A close relationship between the IAF with the Supervisory Board in an organisation transmits respect for its activities and the support it tends to give to the management. The right reporting lines – to the Supervisory Board and AC – also gives the right message to the whole company. IA serves the board, not any particular operational manager. Reporting at the highest level also provides the IAF with a reasonable amount of independence, which it needs to operate with optimum effectiveness (Paape et al., 2003 p. 259).

### METHODOLOGY

Considering the objective of this research, it is characterized as descriptive. Collis and Hussey (2006, 24-26) observed that the descriptive research is “[...] the one that describes the behaviour of the phenomena. It is used to identify information about the characteristics of a given problem. When quantitatively focused “[...] its objective is on the measurement of phenomena. Consequently, the quantitative method involves collecting and analyzing numerical data and applying statistical tests.”

In this study, we visited the corporate Website of BM&F-BOVESPA on July 5<sup>th</sup>, 2011 which had a stock of 683 organisations listed. Of the mentioned number, 284 were financial institutions; 91 grouped telephone, power, gas and sanitation organisations; 209 were from states other than São Paulo, leaving 99 non-financial organisations in São Paulo State.

Upon contact with the non-financial organisations in São Paulo State via telephone, from December 2011 to April 2012 aiming to send the questionnaires, we found that 38 non-financial organisations in the State of São Paulo had no Internal Audit, therefore allowing only 61 organisations to be explored. There were four (4) cases in which the respondents were responsible for the Internal Audit area in two (2) other firms on our list, belonging to the same group, so the sample was reduced to 57 elements.

Data collection took place with two questionnaires: one addressed to the Director/Head of Internal Audit Department (QD), another to the Fiscal or Supervisory Board (QG) which the Internal Audit reports, in order to process the intersections of the respective responses. These documents were enhanced with the use of pre-tests applied to graduate students enrolled in the Master of Science course in the Accounting program at *FECAP – Fundação Escola de Comércio Álvares Penteado* and executives of Internal Audit.

### RESULTS, DATA ANALYSIS AND INTERPRETATION

#### Research results

The data collection of this research resulted in 16 responses from Directors/Heads of Internal Audit Departments and 8 from the Fiscal or Supervisory Board, which reached 28.07% (16 x 100/57) of answers by the elements surveyed.

Considering the understanding by Marconi and Lakatos (2011, p. 86) that “[...] on average, the questionnaires sent to elements surveyed achieved 25% return”, the result reached by the research lies within the parameter of significance.

The data collected were selected, tabulated, analyzed and interpreted with the application of descriptive and

**Table 1.** (QD2) Approval of the internal audit annual plan by the board of directors.

<b>Approval of the Internal Audit annual plan by the Board of Directors</b>	<b>n<sup>o</sup></b>	<b>%</b>
I strongly disagree	0	0,00
I disagree	0	0,00
I do not agree nor disagree	4	25,00
I agree	8	50,00
I totally agree	4	25,00
<b>Total</b>	<b>16</b>	<b>100,00</b>

Source: Authors.

**Table 2.** (QD5) Monitoring of internal audit by the supervisory board.

<b>Supervisory Board monitoring of Internal Audit through independent communication channels</b>	<b>n<sup>o</sup></b>	<b>%</b>
I strongly disagree	3	21,43
I disagree	4	28,58
I do not agree, nor disagree	2	14,28
I agree	3	21,43
I totally agree	2	14,28
<b>Total</b>	<b>14</b>	<b>100,00</b>

Source: Authors.

**Table 3.** (QD7) Adequate number of auditors to carry out the work.

<b>Sufficient number of auditors to carry out the work?</b>	<b>n<sup>o</sup></b>	<b>%</b>
Yes	11	68,75
No	5	31,25
<b>Total</b>	<b>16</b>	<b>100,00</b>

Source: Authors.

inferential statistics which allowed us to show results which demonstrate the contribution and recognition of the management and the concerns of internal audit to improve managerial procedures.

### **Responses obtained through the questionnaire addressed to the director / head of internal audit department**

As could be observed in Table 1 majority agreed with the approval of the Internal Audit Annual Plan by the Board of Directors. This shows a consistent culture of corporate governance being pursued within the organisations.

The monitoring of the IAF by the supervisory board seems to be attracting higher discordance as in Table 2. This could be related to non obligatory maintenance of the supervisory board, giving room in first place to the administrative board according to Brazilian Corporate Law.

Owing to a more important task that the IAF is holding today, as expressed by the respondents, resources are available to enable it carry out its tasks as in Tables 3 and 4. This is in-line with prior findings of Harrington (2004, p. 65) that reported 50% companies that increased their staffs to comply with Sarbanes-Oxley and 33% businesses that have allocated increased resources to comply with Sarbanes-Oxley.

There is an expressed cooperation of the supervisory, administrative boards and the auditee at large in the audit process as shown in Table 5.

The Fiscal or Supervisory Board is the governing body that supports corporate governance which has the task of streamlining the use of resources by the IAF. Responses in Table 6 show that the fiscal board is not out to interfere in the auditing scopes for efficiency. This converges with the thoughts gathered in Table 7 which shows a high level of freedom of action and independence by the IAF is identified. The two factors that may influence the independence and objectivity of internal audit are: The first,

**Table 4.** (QD8) Sufficiency of resources available for implementation of the internal audit.

<b>Sufficiency of resources available for the implementation of the Internal Audit</b>	<b>n<sup>o</sup></b>	<b>%</b>
Yes	14	87,50
No	2	12,50
<b>Total</b>	<b>16</b>	<b>100,00</b>

Source: Authors.

**Table 5.** (QD9) Cooperation of the fiscal board in the internal audit process.

<b>Cooperation of the managing agency in the Internal Audit process</b>	<b>n<sup>o</sup></b>	<b>%</b>
I strongly disagree	1	6,25
I disagree	3	18,75
I do not agree, nor disagree	1	6,25
I agree	8	50,00
I totally agree	3	18,75
<b>Total</b>	<b>16</b>	<b>100,00</b>

Source: Authors.

**Table 6.** (QD10) Interference in the scope of audit by the fiscal board.

<b>Rationalisation by the governing body with regard to Scope of Internal Audit</b>	<b>n<sup>o</sup></b>	<b>%</b>
I strongly disagree	7	43,75
I disagree	4	25,00
I do not agree, nor disagree	1	6,25
I agree	3	18,75
I totally agree	1	6,25
<b>Total</b>	<b>16</b>	<b>100,00</b>

Source: Authors.

**Table 7.** (QD11) Internal audit degree of freedom of action and independence.

<b>Internal Audit degree of freedom of action and independence</b>	<b>n<sup>o</sup></b>	<b>%</b>
High	12	75,00
Medium	4	25,00
Low	0	0,00
<b>Total</b>	<b>16</b>	<b>100,00</b>

Source: Authors.

affecting the organizational independence of the internal audit function, is its relationship with the audit committee; and the second is the use of the function as a management training ground, (Goodwin and Yeo, p. 107, 2001).

The role the IAF plays with the provision for periodic reporting on the effectiveness of internal control systems and compliance with standards is seen as very significant.

As in Table 8, 75% of the respondents see a high degree of internal audit function in this process.

In Table 9, there is agreement in fact and total

agreement to the impact of information provided by IAF in the decision making process. As in Table 10 the aggregated value is felt in the enterprise as a whole.

#### **Responses obtained through the questionnaire addressed to governing body of the internal audit**

When we combine the number of neutral responses with the agreement in fact and total agreement to the approval

**Table 8.** (QD12) Importance of internal audit in the supervision of internal control systems and compliance with standards and procedures.

<b>Degree of importance of Internal Audit in the supervision of internal control systems and compliance with procedures and standards</b>	<b>nº</b>	<b>%</b>
High	2	75,00
Medium	4	25,00
Low	0	0,00
<b>Total</b>	<b>16</b>	<b>100,00</b>

Source Authors.

**Table 9.** (QD13) Influence of information provided by the internal audit on the process of decision making.

<b>Information provided by the Internal Audit influences the process of decision making</b>	<b>nº</b>	<b>%</b>
I strongly disagree	0	0,00
I disagree	0	0,00
I do not agree, nor disagree	1	6,25
I agree	10	62,50
I totally agree	5	31,25
<b>Total</b>	<b>16</b>	<b>100,00</b>

Source: Authors.

**Table 10.** (QD14) the aggregate value by internal audit.

<b>Areas of added value by Internal Audit</b>	<b>nº</b>	<b>%</b>
The enterprise in general	15	93,75
Operational areas	0	0,00
Processes	0	0,00
Another: High risk critical processes	1	6,25
<b>Total</b>	<b>16</b>	<b>100,00</b>

Source: Authors.

**Table 11.** (QG11) Approval of internal audit's annual plan by the board of directors.

<b>Approval of Internal Audit's annual plan by the Board of Directors</b>	<b>nº</b>	<b>%</b>
I strongly Disagree	0	0,00
I disagree	2	25,00
I do not agree nor disagree	3	37,50
I agree	1	12,50
I totally agree	2	25,00
<b>Total</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

of Internal Audit's annual plan by the Board of Directors in Table 11, one obtains 75%, meaning that a majority agree with the plans for IAF adequately discussed and approved by the Fiscal Board.

As in Tables 12, 13 and 14 the responses given by the

Auditors and Management match the thoughts of the Supervisory Board.

No doubts have been expressed about the contribution of auditor information as a support for decision making as shown in Table 15 and as it also pinpoints strengths and

**Table 12.** (QG7) Sufficient number of auditors.

<b>Adequate number of auditors to carry out the work</b>	<b>n°</b>	<b>%</b>
Yes	7	87,50
No	1	12,50
<b>Total</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

**Table 13.** (QG15) Internal Audit degree of freedom of action and independence.

<b>Internal Audit degree of freedom of action and independence</b>	<b>n°</b>	<b>%</b>
Top	7	87,50
Medium	1	12,50
Low	0	0,00
<b>Total</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

**Table 14.** (QG16) Importance of internal audit in the supervision of control systems, as well as compliance with standards and procedures.

<b>Importance of Internal Audit in the supervision of control systems, as well as compliance with standards and procedures</b>	<b>n°</b>	<b>%</b>
High	6	75,00
Medium	2	25,00
Low	0	0,00
<b>Total</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

**Table 15.** (QG17) Influence of information provided by the internal audit on the process of decision making.

<b>Information provided by the Internal Audit influences the process of decision making</b>	<b>n°</b>	<b>%</b>
I strongly Disagree	0	0,00
I disagree	0	0,00
I do not agree, nor disagree	1	12,50
I agree	5	62,50
I totally agree	2	25,00
<b>Total</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

**Table 16.** (QG18) The company's strengths and weaknesses are pointed by the internal audit.

<b>The company's strengths and weaknesses are pointed by the Internal Audit</b>	<b>n°</b>	<b>%</b>
Yes	7	87,50
No	1	12,50
<b>Total</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

weaknesses during the procedures in Table 16.

Results shown in Tables 17 through 21 emphasize the contribution of IAF to the organisations be it in aspect of

social responsibility, minimisation of risks, aggregate values and satisfaction of the management on reporting effectiveness of internal control and probable weaknesses



**Table 17.** (QG19) Contribution of internal audit for increased social responsibility.

<b>Contribution of Internal Audit for increased social responsibility</b>	<b>n<sup>o</sup></b>	<b>%</b>
I strongly disagree	0	0,00
I disagree	1	12,50
I do not agree, nor disagree	0	0,00
I agree	4	50,00
I totally agree	3	37,50
<b>Total</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

**Table 18.** (QG20) The internal audit contributed to minimize the risks of the company.

<b>The Internal Audit's contribution to minimize the risks of the company</b>	<b>n<sup>o</sup></b>	<b>%</b>
I strongly disagree	0	0,00
I disagree	0	0,00
I do not agree, nor disagree	0	0,00
I agree	4	50,00
I totally agree	4	50,00
<b>Total</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

**Table 19.** (QG21) Internal audit contribution to efficiency, effectiveness and economy.

<b>Internal Audit contribution to efficiency, effectiveness and economy</b>	<b>n<sup>o</sup></b>	<b>%</b>
Management in general	6	75,00
Operations	1	12,50
Process	1	12,50
Other	0	0,00
<b>Total</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

**Table 20.** (QG22) The aggregate value by Internal Audit.

<b>Internal Audit adds value</b>	<b>n<sup>o</sup></b>	<b>%</b>
The enterprise in general	8	100,00
Operating areas	0	0,00
Processes	0	0,00
Other	0	0,00
<b>Totals</b>	<b>8</b>	<b>100,00</b>

Source: Authors.

for remediation. The majority of the responses range from 75% agreement to 95%.

### **Comparison of responses of directors/heads of IAF – administrative and supervisory boards**

We used inferential statistics with the aim of comparing

the responses given by the Directors/Heads of Internal Audits Departments and the ones given by Administrative or the Supervisory Board in Table 22. By so doing, we try to show the closeness of interaction and their ways of thinking. The evidence of audit committees and internal audit functions engaging in informal interactions in addition to formal pre-scheduled regular meetings represent additional opportunities for the audit committees to monitor internal audit functions (Zaman and Sarens, 2013, p 495).

Thus, it is notable that only Mann-Whitney test for QD2 x QG2 is statistically significant. This indicates differences between the medians of the Directors/ Heads of Internal Audit Departments and the Supervisory Board, regarding the approval of the annual planning's of the Internal Audit, evidently after risk assessment might have been duly considered. To corroborate this stand, Allegrinni and D'Onza (2003) mentioned that 1. A few companies (25%) in Italy carry out mainly traditional compliance activities and they generally follow an audit cycle approach for the

**Table 21.** (QG24) Satisfaction of the organisation about the final results presented by the internal audit.

<b>The organisation's satisfaction with the final results presented by the Internal Audit</b>	<b>nº</b>	<b>%</b>
I strongly Disagree	0	0,00
I disagree	0	0,00
I do not agree, nor disagree	0	0,00
I agree	5	62,50
I totally agree	3	37,50
Totals	8	100,00

Source: Authors.

**Table 22.** Descriptive levels of inferential tests – summary.

<b>Mann-Whitney test</b>	<b>p-value</b>	<b>Comparison of Proportions</b>	<b>p-value</b>
Median QD2 x Median QG2	<b>0,0335</b>	% QD1=YES x % QG10=YES	0,2537
Median QD3 x Median QG3	0,6664	% QD11=HIGH x % QG15=HIGH	0,6779
Median QD4 x Median QG4	0,7446	% QD12=THE ENTERPRISE IN GENERAL x % QG16= THE ENTERPRISE IN GENERAL	0,6959
Median QD5 x Median QG5	0,1061	% QD14=THE ENTERPRISE IN GENERAL x % QG22= THE ENTERPRISE IN GENERAL	0,5308
Median QD6 x Median QG6	0,6115		
Median QD13 x Median QG17	0,4101		
Median QD16 x Median QG23	>0,9999		

annual audit planning; 2. In most companies (67%), internal auditors adopt the COSO model and perform mainly operational auditing. Risk based approach is applied predominantly at macro level; and 3. Finally, it is possible to identify a very few large companies (8%), in which auditors are applying a risk-based approach both at macro and micro level.

### Analysis and interpretation of results

The data obtained showed that management is concerned with the Internal Audit function, by providing it with necessary resources so that it could excel. There does not seem to be a restriction regarding the scope of the activities of Internal Audit, since auditors have liberty and independence of action for the charter.

Independence is paramount to the development of the Internal Audit work and in as much as it contributes effectively to the achievement of organisational goals. This study confirms this principle, since there were consistent responses by the Administrative and Supervisory Boards, stating that the necessary degree of freedom of action and independence of the activity that lies within the “upper” and “middle” range of the management, not

having choices registered by the “lower” level echelon of management.

It was found through inferential tests, when confronting answers to questions common to the Directors/Heads of IAF and managing bodies, that only the question referring to the approval of the annual plan of the Internal Audit by the Board of Directors presented statistical significance (p-value = 0.0335), showing that the segments have different views as to the understanding of recommendations by the Brazilian Institute of Corporate Governance -IBGC.

This Institute recommends that this plan be approved by the Administration Board taking into account that it is up to the Board the overall control of the activities of the organisation. With respect to other observations of the recommendation prescribed by IBGC for good governance, related to Internal Audit, the variables investigated also show the discrepancies. The monitoring of Internal Audit by the Supervisory Board is not performed, according to the answers given by the respondents to the questionnaire that were sent to the Directors / Heads of Internal Audit and the managing bodies. Nonetheless, this function is recommended by the IBGC so that the managing body is able to analyze and opine on the recommendations of the Internal and External Audit in

parallel with the Audit Committee. However, according to the Brazilian Law, except that it is the monitoring activities done by the Administrative Board, organisations are not obliged to install a Supervisory Board, which explains why some did not have it.

It was also evident in most of the responses that the Internal Audit is subordinated to the President/CEO, which is contrary to good corporate governance structure, since there is guidance in the sense that the activity should be submitted to the Supervisory Board of Directors. The purpose of this binding is to provide the Internal Audit with independence of action to exert their activities without restriction.

This anomaly, however, is not highlighted in the answers given by respondents, when evaluating the degree of freedom and independence of action given to the Internal Audit, nor when talking about the management body's restricting the scope of works.

In line with all the responses, we see that Internal Audit is concerned with the improvement of management, in as much as the evaluation of risk management and internal controls predominate in the areas of their operations.

It was evident that there is support to auditing work when it comes to providing the necessary number of auditors as well as resources for the execution of the works. Furthermore, the research shows through most of the responses, the management body cooperates during the work and there is a Manual of Standards and audit procedures in the majority of the researched organisations.

The respondents who are in the Administrative and Supervisory Boards showed a high and medium level importance of Internal Auditor, for the Internal Control systems and standards and procedures to comply with. In other words, no one showed lower level cognisance of the work of internal auditing.

This recognition was extended when the majority of the respondents agreed that the Internal Audit shows the weaknesses and strengths of their organisations, which shows a paradigm shift, insofar as it is notorious that internal auditors show only weaknesses. The most important recognition was the considerations that end results of Internal Auditors' involvement in managerial decision as "satisfactory".

## Conclusion

The research showed that the Internal Audit has evolved from simple verifier of acts and administrative facts, on the watch out for operational anomaly, as been construed decades ago, to other duties in a wider sphere of enterprises that include strategic planning of organisations. The Internal Audit is consolidating itself as one of the pillars of corporate governance by supporting managements on decision making.

The transformation process has greatly evolved in

recent years because of the market dynamism and most especially after the turbulence that corroded the image of independent auditors and invariably that of the internal auditors.

Therefore, the internal audit tasks of ensuring compliance within the organisations and outside to avoid transgressions of rules that were set up to curb further financial misstatement whether intentionally or unintentionally allows the stakeholders at large to notably recognise the role of internal auditors as management advisory.

Thus, Internal Audit greater insertion in the management environment, through the adoption of a systematic and disciplined approach on the evaluation and improvement of the effectiveness of the processes of risk management, control and corporate governance has proven to be effective for its recognition as an important ally in the partnership with the management, when it comes to adding value to the organisation.

Observations from this research would allow one to mention the following additional roles of IAF apart from those considered as notorious:

- a. Improvement of organisations management, providing useful information for decisions making, especially concerning the identification of strengths and weaknesses of the organisations, which allows the management to make a critical analysis of the productive and economical processes to allocate their scarce resources;
- b. Increase the social responsibility of organisations, which in one manner or the other tends to add value to the organisation in the human aspect;
- c. Minimise the organisation's risks, loss prevention, adding value to the organisation, since minimizing the risks avoids financial losses;
- d. To the efficiency, effectiveness and economy of the company's performance and of resources utilisation, helping management to achieve the company's goals.

Noteworthy, that the study was based on 57 elements of the sample, representing 61 organisations selected among 683 organisations listed at the BM&F-BOVESPA, as it was at the site of this entity on July 5th, 2011 which is highly representative of the perception of the IAFs in Brazil.

Our research has shown that Internal Audit, in the perception of management in organisations, is a tool for managerial support, helping organisations achieves their goals through the information provided. This also contributes to the continuous assessment and mitigation of strategic risks and strengthening internal control systems for timely decision making, thereby answering the research question that was posed on the perception of management on the role that Internal Audit plays in management practices and decision making in the organisations.

Even though it is totally impossible to deplete the subject researched and taking into account the limitations

of the work, that is, internal audit departments in the state of São Paulo, even though relevant in the Brazilian context, it is understood that further researches may explore the subject, including the use of our results, as well as raising the number of organisations selected for the next surveys.

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