

Does Internal audit create value?

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MSc in Finance and Accounting Management

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Dissertation Supervisor: **Suzanne Burdis**

Student Name: Marcos Vinicius Santos Reis

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Candidate Declaration

Candidate Name: Marcos Vinicius Santos Reis

I certify that the dissertation entitled: Does internal audit create value?

submitted for the degree of: **MSc in Accounting and Finance Management** is the result of the my own work and that where reference is made to the work of others, due acknowledgment is given.

Candidate signature:

Date:

Supervisor Name: Suzanne Burdis

Supervisor signature:

Date:

Dedication

I would like to dedicate this entire work to my parents for all support they have given me through every phase of my life and for being an example in my life.

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Abstract

Over the last few decades various financial scandals have occurred involving large organisations such as Enron and World-Com in the early 2000s, until those scandals academia had not realised its little knowledge about the internal audit function (IAF). After the implementation of the Sarbanes-Oxley Act (SOX) (2002) in the United States and Bill 198 (2002) in Canada, the IAF quickly gained more visibility and many studies began to explore this new research avenue.

Past papers indicate that a strong, independent and competent internal audit could have avoided some scandals by detecting the fraud that was going on in these fraudulent companies.

Having this in mind, this research has tried to identify the main challenges faced by an internal audit department and evaluate the main values generated by the IAF. The main objective of this research was to explore the management perception of the internal audit department, to do that a case study with professionals in Brazil from different industries was conducted, the participants of this study were divided between internal auditors and members of management.

The study findings suggest that the management perception in relation to the IAF has been changing positively over the years. In most companies analysed, the professionals point out a change in the management consideration of the internal audit suggestions and recommendation, and in some cases the internal audit department is consulted by manager before they make strategic decision.

Keywords: Internal Audit, Internal Audit and Management Perception, Internal audit adding value and Internal audit challenges.

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1 Introduction

In the decades leading up to the financial scandals of the early 2000s (e.g. Enron, World-Com and others), academia seemed somewhat unconcerned about the internal audit function (IAF). Nevertheless, this organisational function quickly gained prominence after the enactment of the Sarbanes-Oxley Act (SOX) (2002) in the United States and Bill 198 (2002) in Canada, prompting researchers to realise how little they knew about IAF and how important it would be to tackle this knowledge gap.

Enron was an energy-trading company that grew rapidly in the boom in the 1990s but after boom years ended, the company began to face an increase in competition in the energy trading business. This fact led the top executives of the company to utilise dubious accounting practices, among the more diverse accounting techniques they began to utilise, there is one known as “mark-to-market accounting”. This technique was utilised to hide the problems. With the use of this technique the company was able to write unrealised future gains from certain trading contracts into current income statement, thus providing the impression of higher current profits. Moreover, the company's troubled activities were shifted to so-called special purpose entities (SPEs), which are basically limited partnerships formed with outside parties. Enron used the SPEs as disposal sites for its distressed assets by transferring those assets to SPEs, this meant that they were kept away from Enron 's accounts, making its losses seem less significant than they were.

The weak financial controls and fraudulent information provided in management, financial and accounting reports shows us the importance of having a strong internal audit in place. Unfortunately, Enron did not have an inside internal audit department. This service was outsourced to Arthur Andersen, what is valid to notice here is that Arthur Andersen was also their external auditors(The Washington Post [online], 2001).

Regarding the issue of external auditor also performing the internal audit, Lynn E. Turner, former chief accountant of Securities and Exchange Commission in an interview for The Washington Post stated “you have lost not only the checks and balances, you have also lost the voice and perspective of an independent third party” (Turner cited in The Washington Post [online], 2001).

World-Com was a telecom company, the second largest U.S long distance carrier in 1998. As Enron, this company had a sharply growth in the 1990s, however, it began to suffer an increased competition in late 1990s and early 2000s, and the top executives were under pressure to keep meeting analysts' forecast to keep external investors happy. In addition, the Chief Executive Officer (CEO) had his financial economic health linked to World-Com's stock price and another measure pressure came from the fact the World-Com was recognised as a high growth business.

All those pressure factors mentioned above lead top management to fraudulently change the accounts of the company but differently to Enron that had used complex partnerships and accounting for SPEs, what they did was a simple "mistake" instead. They accounted for line costs (monthly fees related to the use of third-party network services and facilities) as capital expenditures and this allowed the company to spread its immediate costs over time, boosting their profits (Zekany, *et al*, 2004).

Another trick used by World-Com was to intentionally boost their fund reserves so that they could dip into them to increase profits in order to meet the profit projections (The Guardian [online], 2002). However, the internal audit department in 2002 found the fraudulent actions in the accounts of World-Com. This took place from 1999 to first quarter of 2002, after that the company ran into trouble and had to file for bankruptcy(The Guadian [online], 2002).

The weak internal controls in the World-Com corporation allowed that fraud to go uncovered for such a long time, the reason that may explain why the internal audit department took so long to discover the fraud can be related to the desire of the Worldcom's CEO in having all staff members add value to the company bottom line, this lead the focus of internal audit work in the company to concentrate on operational audits.

The internal audit department would be given special assignments that did not have anything to do with the internal audit role, and in addition while performing their role of oversight governance of the organisation's internal operational and financial controls, they avoided working on financial audits that could override the external auditor's position based on cost savings (Zekany, *et al*, 2004).

Other scandals that can be mentioned are The Waste Management, Inc. (1998) and Tyro (2002), both companies were based in U.S.

The Waste Management, Inc. top executives were sued by federal regulators for being engaged in a huge financial scam where they inflated artificially the company's revenues which allowed the directors to obtain millions in personal income and other benefits (The Wall Street Journal [online], 2002). Tyro was allegedly in contravention of the Securities Exchange Act for not disclosing major financial information and for artificially inflating revenues (CNN [online], 2002).

After those scandals, the U.S government passed the SOX act. This new legal requirement strengthened corporate responsibility for financial reports after SOX being issued, the CEO and Chief Financial Officer (CFO) shall review all financial reports, the financial reports shall not contain any misrepresentation, the information must be "fairly presented" in the financial report, CEO and CFO are also responsible for the internal controls and any deficiency in the internal accounting controls or fraud involving audit committee management, last but not least they shall state any material changes in internal accounting controls. Furthermore, the external auditor shall validate the accuracy of the affirmation made by the company management that the internal accounting controls are implemented, operational and effective.

In Canada the government passed the Bill 198 called by some CSOX, where the C stands for Canada. The two laws are very similar where both require public companies to implement and monitor internal controls over financial operations, the disclosure of control and procedures, CEO and CFO are also responsible for evaluating the strength and limitations of these controls and to verify their efficacy in official documents filed with the securities regulators of Canada.

All these new requirements regarding internal controls have drawn attention to the fundamental role internal auditors play in the business environment.

There are several different forms of audit and assurance that can be used to provide an objective assessment and report that can begin inside the organisation. The Internal Audit Function plays a key role as one of these sources of assurance in the audit process, as Mercer (2004) states, often serving as the third line of defence, in order to avoid disclosure errors that may be caused by weaknesses in internal controls or even intentional acts relating to fraud. Mercer (2004) also states that if investors are able to assess the quality of an internal audit function within an organisation, the stronger the internal audit department, the greater the disclosure credibility.

Despite the increased reliance on the IAF and the need for governance parties to find ways to improve the quality of the IAF (Ege 2015), the perception of IAF by management is limited in literature. The purpose of this study is to expand the awareness of the efficiency of the IAF through the perspectives of key governance stakeholders (i.e. internal auditors and senior management). To be able to do so, this research investigates the opinion of seven professionals based in Brazil, amongst them are five internal auditors and two members of management all working in large organisations in various different industries.

Brazil was chosen as a background for personal reasons as I am a Brazilian citizen by birth and also because Brazil also had accounting scandals such as, National (1995) and Banco Santos (2004). Both National and Banco Santos were banks; the National scandal involved the creation of phantom credits at the bank with accounting of false profits, and the Banco Santos involved accounting fraud with misrepresentation of information, money laundering and irregularity in the granting of loans. Both banks suffered intervention from the Brazilian Central Bank and went bankrupt.

1.1 Research Purpose

All businesses are facing risks and as the world in which they conduct their business is becoming more and more complex every day, some companies are more likely to face higher risks than others, the internal audit department is responsible for evaluating the risk management and assisting with mitigating them within a company.

Dealing with this reality, the aim of this research will be to present the main challenges faced by the internal audit department in the organization, the main values generated by this department, and also to investigate the perception of management in relation to the IAF.

The research questions that this study aims to answer are as follow:

1. What are the main challenges faced by an internal audit department operating in an organisation?

2. What are the main values added to an organisation by the IAF?
3. Does management recognise the value created by IAF?

Based on these research questions, the study is designed to discuss the specific topic in order to provide the appropriate answers to this study. The justification of the problem can be based on the “low existence” of research focused on the management perception of IAF as a tool to aid the organisation to achieve its mission.

1.2 Significance of the Study

The internal audit department is a primary defence line of a business organisation, it is responsible for many functions, nonetheless, has some priorities such as governance mechanism, risk management, fraud prevention, compliance with laws and standards, and assure the top management that the controls are working as they were design to do.

As a theoretical relevance this study sought to fill a gap in past studies that had analysed the IAF, nevertheless, did not pay attention to the perception of management in relation to it.

The justification of the study is also related to the demystification of the fact that internal auditing is a dead weight for the organisation because it works in the defensive line and does not create direct income. However, this study hopes to demonstrate the effect of IAF’s work generates long-term value for the company, in particular as it ensures that the information given into management, finance and accounting reports are accurate, with greater efficiency and effectiveness of controls, therefore trust in the company increases among creditors, vendors, consumers, employees and other stakeholders.

The study also hopes to identify limitations in the IAF, the reasons why this has occurred so that this work can be of benefit to regulators, the audit committee and senior management to understand and prevent activities that may damage the IAF in its duties.

1.3 Research Objective

The objective of this research is to provide insights into the IAF. Recently, the IAF has gained more status in practice and literature as mentioned by Roussy and Perron, (2018). With several scandals involving large companies in recent decades, the IAF has become more noticeable, some studies indicate that a solid, independent and competent internal audit may have avoided/prevented much of the scandals (Ege, 2015, Sridharan and Hadley, 2018).

Given this information, the objectives of this research are as follow:

1. Identify the main challenges faced by the internal audit function in performing its duty.
2. Evaluate if the internal audit does what is supposed to do by its concept.
3. Evaluate the main values generated by the internal audit function for the company.
4. Evaluate if the value generated by IAF is perceived by management.
5. Explore management perception about the internal audit function as a tool to assist the organisation achieve its mission.

The first and objective serve as the basis for answering the first research question as it will identify the challenges dealt by the internal department in the organisations

The second and third objectives are connected, and they will answer the second research question by seeking to understand how the IAF perform its duty and if it creates any value for the company.

Objectives four and five are the main objectives of this research, as they will answer the third and final research question that seeks to discover the perception of IAF management, this wants to discover if management recognises that IAF generates value, if it does so, how this value is appropriated by management, does management accept suggestions and recommendations from internal audit? If management consults the expertise of the internal audit department to help them make better decisions? These questions will hopefully be answered through this research.

1.4 Structure of the Study

This research is structured into 5 chapters, as follows:

- The first chapter is an introduction to the study where it presents the objectives, purpose of the study and its significance.
- The second chapter displays a review of the literature, it analyses the internal audit role, how can an internal audit department can add value to an organization, the differences between internal and external auditors and issues faced by an internal audit department and why it may fail in performing its duty.
- The third chapter exhibits the research methodology, it goes through the scope of research philosophies in at least the most commonly used literature, the research philosophies choice and its implications for this study, relevant research approaches available and strategies, choices of data collection methods, time horizons of analysis, how data will be collected and eventually analysed. Furthermore, it also gives the reader a brief idea of the other possible research approaches and explains the author's choice and beliefs.
- The fourth chapter exposes the case analysis, the findings from the study, discussion and its implications.
- The fifth and final chapter discusses the conclusions, findings and implications for the research, contributions and limitations of this study, suggestions for practice and for future studies on this subject and finalises with reflections on the study.

2 Literature Review

2.1 Overview

The main reason of the literature review chapter in this work is to analyse the internal audit role, how can an internal audit department add value to an organisation and other issues related to IAF. The IAF role is a multiple role and is covered in the detail to give a better understanding of its importance inside the organisation and how it can improve an organisations' overall performance. The literature review is divided into, internal audit role, how can internal audit add value to an organisation, differences between internal and external auditor, and issues related to internal audit.

2.2 Internal Audit

2.2.1 *What is it?*

Based on the Institute of Internal Auditors (IIA) (Institute of Internal Auditors, 2015) the internal audit role is to provide independent assurance that a company's risk management, governance and internal control processes are running effectively.

The nature of internal auditing, its role within the organisation and the requirements for professional practice are contained within the International Professional Practices Framework (IPPF).

(IIA, 1999) "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".

All company's deal with risks and as the environment they run their business becomes more and more complex daily, some companies will be more likely to face higher risks

than others, it is the internal audit department function to evaluate a company's management of risk.

The internal audit assess how well risks are being managed, they evaluate internal controls effectiveness, corporate governance processes all over the company, quality of management processes and they report directly to top management as well as to the board's audit committee.

The IAF in the literature has multiple roles. Some researchers as (Gramling *et al.*'s 2004; Goodwin-Stewart and Kent, 2006a; Mat Zain and Subramaniam, 2007; Prawitt *et al.*, 2009; Stewart and Subramaniam, 2010) state that IAF fundamental role is to act as a governance mechanism/oversight, other groups of researchers will say that it is much more complex than this, its function is constantly evolving, it cannot be limited to governance mechanism (Soh and Martinov-Bennie, 2011; Lenz and Sarens 2012).

Based on their interpretations of the IAF, this uncertainty regarding the internal audit role is due to the number of stakeholders they have the duty to serve, for example, managers, audit committee, directors to name just a few.

Roussy (2013) having this issue related to internal auditor in mind established that internal auditors have two key roles for an organisation and its top managers, the internal auditor acts as "protectors" and "helpers". For Sarens *et al* (2009) IAF is an essential wellspring of "comfort", however Vinnari and Shaerbaek (2014) call attention to the fact that the IAF has a fundamental role in risk management.

In their study Roussy and Perron (2018) state that literature cannot define the IAF role or primordial role as it seems to have multiple roles and it should not be defined as single one, however, regardless IAF multiple roles, it is a fundamental resource for audit committees, management at all levels and external auditor.

The National Association of Corporate Directors (1999, p. 47) stated that "the audit committee can look to today's internal auditing function to provide independent, objective assurance and consulting activities designed to add value and improve the organization's operations".

The importance of IAF in an organisation is such that since 2003 the New York Stock Exchange (NYSE) section 303A.07 (c) of the NYSE Listed Company Manual requires

that every listed company on the stock exchange must have IAF in their organisations, it could be either the organisation or outsourcing (NYSE, 2003).

Past researches give empirical support to NYSE decision, the importance of an effective IAF is linked to better quality financial reporting (Abbott, Daugherty, Parker, & Peters, 2015; Christ, Masli, Sharp, & Wood, 2015; Prawitt, Sharp, & Wood, 2012; Prawitt, Smith, & Wood, 2009), lower probability of management misconduct (Ege, 2015), better safeguarding of assets (Beasley, Carcello, Hermanson, & Lapides, 2000), and better quality of internal controls (Lin, Pizzini, Vargus, & Bardhan, 2011).

2.2.2 *Regulator body and code of ethics*

The IIA is the regulator professional body for internal auditors, it regulates the internal auditor profession and advocates in name of the profession world-wide, the IIA created a code of ethics that should guide the ethical conduct of internal auditors, the objective of it is to bring more transparency and credibility to the profession.

In the applicability and enforcement of the code, the code refers to both companies and professionals who execute internal audit services. IIA members and beneficiaries of or applicants for IIA professional certification, are all subject to the code of ethics and a misbehaviour and breach of the code is evaluated and administered in accordance to the IIA's byelaws. The fact that a specific attitude is not referenced in the Rules of Conduct does not keep it from being inadmissible or discreditable, and in this manner, the part, certification holder, or applicant can be at risk for disciplinary activity (IIA, 2010).

Code of Ethics — Principles, that internal auditors must exercise and promote by The IIA are: Integrity, Objectivity, Confidentiality, Competency.

Rules of Conduct:

Integrity, internal auditors must conduct their work with honesty, in compliance with the law and professional standards, not be part of any illegal activity or engage in activities

that will bring discredit to the profession or to the organisation, additionally must respect and strengthen the legitimate and ethical objectives of the organisation.

Objectivity, internal auditors must not engage in any type of activity or relationship that might impair or seem to impair their unbiased assessment, must accept nothing that might impair or seem to impair their unbiased judgment and must disclose all information known to them, that the lack of disclosure, may misrepresent the reporting of activities under review.

Confidentiality, internal auditors must not use information gained through the performance of their work for any personal gain or in any way that would go against the law or legitimate and ethical objectives of the organisation.

Competency, internal auditors must be part of only in those services that they have the required knowledge, skills, experience and must follow all the international standards for the profession practice of internal auditing and always pursue to improve effectiveness and quality of their work.

2.3 How can internal audit add value to an organisation?

The IAF fills in as a governance control, and it plays out an essential role by fortifying the entity's general frameworks of control and leading assurance reviews of the critical controls proposed to address organisations-level, industry, and business-line risk.

These reviews give the top management, the board of directors, external auditors and, above all, the audit committee assurance that key controls inside the entity are structured properly, working effectively and efficiently, and while assurance might not be achievable for internal auditors to measure monetarily, yet it unquestionably establishes value-added service (Lundin, 2009).

During every engagement, internal auditors may see various spaces for process improvement or different upgrades that at last either increment the company's profitability or help accomplish its mission.

Internal auditors are risk assessment and quality control specialists. Through performing audits, investigating problems, and benchmarking with colleagues on best practice they gain sufficient knowledge and experience in these areas, and it allows them to help management identify the threats to the company and to develop strategies to minimize those threats. They may help assure management and the board that key risks are adequately controlled, specially when the organisation operates in an industry that is heavily regulated, by ensuring that the management and the board of directors of the organisation is taking the necessary measures to ensure compliance (Jeffrey, 2008).

Knowing how the internal audit processes fit into the company adds value, although it can be difficult to measure in terms of dollar savings, income or decreased risk (Lundin, 2009).

Aiken and Coderre (2017) say that internal auditors can add value to compliance audits by performing the right audit and doing it accurately. Doing the right audit involves investigating whether there is a need for compliance in the first place. Perhaps the risk has been eliminated, no risk equates to no compliance issue, which means cost-savings.

Another way to add value is through the audit reporting, however the internal audit team needs to consider what areas they want their stakeholders (top management, audit committee, external auditors...), to focus. Subsequently, they should consider the availability of resources and needs of the main stakeholders. That said, an audit report that is easy to read and understand the findings and recommendations, classified by categories of significance, can bring value to stakeholders, and consequently to the organisation (Lundin, 2009).

Prawitt *et al* (2011) found that reliance on internal auditor's job may reduce costs to the external auditor by switching the time and work of the internal auditor for that of the external auditor. Nevertheless, they assume that the audit market is competitive, and part of those savings acquired by the external auditor is passed on to the client in the form of reduced external audit fees.

Prawitt *et al* (2011) state that these savings are possible because the external auditing standards allow external auditors to rely on the work of internal auditors in carrying out

a financial statement audit to the degree that the internal auditors are competent, objective, and execute work that is relevant to the external audit (American Institute of Certified Public Accountants (AICPA) 1997; Public Company Accounting Oversight Board (PCAOB) 2007). In characterizing work that is relevant to the external auditor, the standards permit either utilize internal auditor as aides or to rely on work recently carried out by the IAF. Felix *et al* (2001) also finds evidence that internal audit reduces external audit fees.

An internal audit department with high quality audit function can improve an organisation performance by reducing management misconduct consequently reducing the risk that the organisation faces. Ege (2015) found that a composite proportion of IAF quality and IAF competence is adversely connected with the probability of management misconduct, companies that had management misconduct disclosures, enforced IAF quality after being exposed.

Beasley *et al* (2000) found in their study that fraudulent organisations possess very fragile governance mechanisms in comparison to non-fraudulent industry benchmarks. In the study three industries were analysed (Finance Services, Technology and Health-Care) and in all of them, fraudulent organisations have lower independent audit committees, lower independent boards and lower internal audit support.

The IAF is also associated with better internal controls, the finding of Shu Lin *et al* (2011) demonstrate that material weakness (MW) are adversely associated with the degree to which the IAF use quality assurance (QA) methods in fieldwork, audits financial reporting activities and follow up on preciously diagnosed control issues.

All the above activities related to IAF, can add tangible and intangible value to an organisation that has a strong, independent and competent internal audit department and audit committee.

2.4 Differences between internal and external auditor

The IIA provides a table where they highlight the principal difference between, external and internal auditor, see the table below:

Table 1: Differences Between External and Internal Audit

	External audit	Internal audit
Reports to	shareholders or members who are outside the organisations governance structure.	The board and senior management who are within the organisations governance structure.
Objectives	Add credibility and reliability to financial reports from the organisation to its stakeholders by giving opinion on the report	Evaluate and improve the effectiveness of governance, risk management and control processes. This provides members of the boards and senior management with assurance that helps them fulfil their duties to the organisation and its stakeholders.
Coverage	Financial reports, financial reporting risks.	All categories of risk, their management, including reporting on them.
Responsibility for improvement	None, however there is a duty to report problems.	Improvement is fundamental to the purpose of internal auditing. But it is done by advising, coaching and facilitating in order not to undermine the responsibility of management.

Source: (Chartered Institute and of Internal Auditors, 2015)

As we can see from the table above external and internal auditors play distinct roles. Nevertheless, both have mutual interest regarding the effectiveness of internal financial controls, they also adhere to codes of ethics and professional standards defined by their respective professional bodies (Balkaran, 2008).

Another difference between internal and external audit is that internal audit roles are not usually mandatory for organisations. Instead, their implementation is left at the discretion of individual organisations. However, in some cases internal auditing are compulsory, as an example companies listed in the NYSE.

Above all internal and external audit functions must operate independently of the activities they perform in their work, and it is expected from both auditors to have broad knowledge about the business, industry and strategic risks faced by the company they provide the work for (Balkaran, 2008).

2.5 Issues related to Internal audit.

Internal auditors are in charge of the organisation's risk management procedures and work to ensure that the internal control mechanisms of an organisation work well. They identify risks and help management improve internal controls.

Based on Sarbannes-Oxley Act (SOX) firms must select an internal control framework and evaluate and report annually on the design and operational effectiveness of the internal controls in compliance with the chosen framework.

Hermanson *et al* (2008) studied 16 companies, from late 2004 to mid-October 2006 all with internal audit related MW or remediation plans. Those companies were moderately large, with \$500 million range or greater in market value, revenues and assets. Regarding MW, the most regularly referred issue was absence of a comprehensive or effective IAF (7 organisations). This issue usually refers to a systemic inability to enforce successful internal auditing, meaning internal auditor are not properly tracking key risks and controls. Nevertheless, this issue can also be created by management requests to "side-track" the internal audit.

Other issues with IAF found by Hermanson *et al* (2008) are, (a) a lack of independence in the IAF, (b) insufficient oversight of internal audit or internal audit focus, and (c) problems involving insufficient audits of international activities. Other issues cited include not having sufficient internal auditors, not having experienced auditors, not having an IAF at all, or failing to fix issues identified in the control check.

Zekany *et al* (2004) in their study about the collapse of WorldCom, cites management issues regarding IAF. Bernie Ebbers the CEO of the company had a desire in having staff members add value to the company bottom line. The result of it was the IAF at WorldCom had to support its existence by focusing on operational audits where the value of its work

could be quantified. While performing their oversight function of the organisation's operational and financial internal controls, they avoided working on financial audit that might overlap external auditor's position in the basis of cost-savings.

Zekany *et al* (2004) also relate in their study that the CEO or chief financial officer (CPA) of WorldCom would assign the internal audit department with "special projects". Those projects were holy operational in nature and had no audit means or use. Member of internal audit department related that the production of its operational projects were time-intensive, and would consume most of the time of the internal audit members for at least the first semester of its inception. This attitude reduced the department resources and delayed the planned audit.

Another case where internal auditors has failed in performing their duty occurred in Wells Fargo, one the largest banks in the U.S. Employees of Wells Fargo made \$2.6 million in fees for the bank by setting up 115,000 unauthorized customer accounts and credit cards (Sridharan and Hadley, 2018).

Sridharan and Hadley (2018) "The Wells Fargo cross-selling fraud case illustrates the necessity of a strong and independent board and vigilant internal audit to enforce internal controls. Effective oversight and internal controls may have prevented the ethical collapse that led to the opening of millions of unauthorized accounts". Wells Fargo was found guilty of fraud and the bank settled to pay a fine of \$185 million and an extra \$5 million in client's remediation.

The traditional agency theory indicates that board independence, oversight and risk management can be enhanced when the roles of CEO and chairman are distinct.

Yaffand Kess (2016) and Duru *et al* (2016) as cited in Sridharan and Hadley (2018, p.50) state that when CEO assume both position (CEO and Chairman) it has a negative influence on organisational performance, although the influence might be moderated by board independence. It appears that CEO double position at Wells Fargo had a negative impact in the company's risk management.

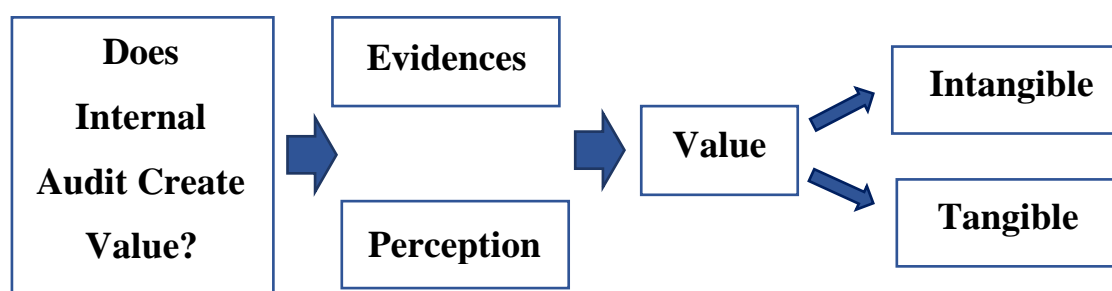
Christopher (2019) analysed six corporate scandals (WorldCom, Parmalat, Lehman Brothers, Olympus, Satyam, and Volkswagen) that occurred globally from 2000 to 2015 and confirmed control weaknesses of not taking into account the interest of the various stakeholder base as contributing to collapses in the respective organisations.

Such control failures existed at the board and operational level of governance and relate to the control mechanism that should have taken place. Yet, according to Christopher (2019) findings suggest the IAF failed in its duty of protecting the governance framework against corporate frauds and it supported weaknesses at the stakeholder level of governance.

Christopher (2019) also recognises in his findings that the reasons for the monitoring gap is the flexibility given to the design and operational setup of IAF and audit committees. This flexibility aspect has made it possible for boards and management to manipulate the role of the IAF and audit committee to the degree that their scope of services does not conform to their designed role as structured in the concept of internal audit. In his study he also found weakness in the audit committees, where they were not satisfactorily structured, with many showing little power in comparison to management and absence of independence.

2.6 Conceptual Framework

Figure 1: The Conceptual Framework



Source: Author

- Evidences:

Various studies in the literature provide evidences about the effectiveness and efficiency of a strong, independent and competent audit department in adding value to an organisation overall performance, the studies point to better internal controls, lower probability management misconduct, better quality financial reporting, better

safeguarding of assets, reduced risk, lower external audit fees and assured compliance with laws and regulations.

- Perception:

The various studies analysed in this literature review did not focus on the perception of the management in relation to having an internal audit department and how it can enhance the organisation overall performance. Nevertheless, this study wants to find out the management perception in relation to having an IAF.

- Value:

The value add to an organisation by the IAF can be tangible, that auditors may measure monetarily (example lower external audit fees) and intangible (most of the cases) when the internal audit department provides advise and recommendations to the organisation, prevent management misconduct and fraud and strengthen internal controls.

- Intangible:

Most of the value added to an organisation through IAF is intangible. By the nature of its work, the internal audit function serves in most case as a mechanism for governance/oversight, that makes sure the organisation is in compliance with all laws and regulation, checking and reviewing internal controls effectiveness and efficiency to see if all the controls are operating as they are designed to, making reports to inform and recommend to management and board about weakness in the internal controls and any improvement they judge necessary to reduce risk and improve the organisation overall performance.

- Tangible:

Knowing how the internal audit processes fit into the company adds value, although it can be difficult to measure in terms of dollar savings, income or decreased risk (Lundin, 2009).

As stated above it may not be achievable for internal auditors to quantify their addition in monetary terms, nevertheless, in a few cases it may be possible as reduction in external audit fees or waste prevention.

2.7 Conclusion

This literature review goal is to give an explanation of concepts that are considered relevant to the research objectives, and that might also affect the decision of an organisation when it wants to implement an IAF or improve it.

The IAF gained more visibility after many scandals involving large organisations over recent decades, prior studies show how a strong, independent and competent internal audit could have avoided/prevented most of these from happening. What the literature indicates about the internal audit failures in most case is that the IAF was not being performed or designed to do the work that it should do by its concept.

It also shows cases where top management had so much power in the organisation and they could influence on the internal audit job, and design this function as they please, leaving internal audit department operating without sufficient internal auditor staff members and/or inexperienced internal auditor staff.

This literature review shows studies that indicates when an IAF is properly in place doing what it is designed to do, it can add value to an organisation's overall performance, as well as preventing management misconduct and giving assurance to various stakeholders that their interests are being considered by the organisation's top management and board.

This chapter also explained the differences between internal and external auditor, similar goals, and how one can help another to achieve their goals.

3 Methodology and Research Design

3.1 Overview

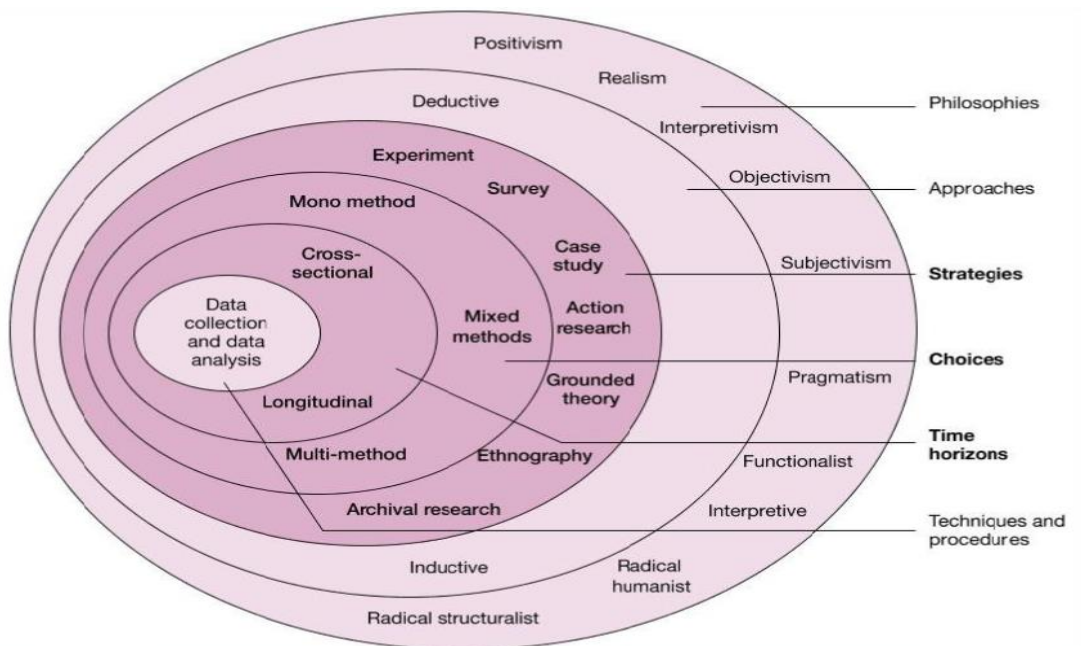
This chapter goes through the range of research philosophies contained in the literature at least the most used, its implication for this research, the research approaches available, the strategies available, choices of methods of data collection, time horizons of a research, how the data will be collected and then finally analysed.

This chapter not only explains the strategy adopted in this research, but also gives the reader a brief idea of the other possibilities and explains the author's choice and beliefs.

3.2 Research Philosophy and Approach

The research philosophy can be considered in three big groups: epistemology, ontology and axiology. They contain significant differences between them, the particularities guide the way we think about the research process (Mark Saunders, 2007).

Figure 2: The Research Onion



Source: (Mark Saunders, 2007, p.132)

Epistemology

Epistemology is about what constitutes appropriate information in a study area. This way of thinking is where the researcher's concern is about what can be measured and is less open to bias, the researcher wants to be as less bias as possible. Usually in this type of research the researcher has less influence over the data collected. Inside the epistemology philosophy we have the subcategories: Positivism, Realism and Interpretivism.

- **Positivism**

In the positivism the researcher will try to discover general 'laws' that would be applicable to explain how things work and why they work in that way, it is related to the natural science such as physical and chemistry. Remenyi *et al* (1998, p.32), say this type of researcher will prefer "working with an observable social reality and that the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists"

- **Realism**

It is associated with scientific enquiry, the meaning of realism is that what the senses give us as fact is the truth: the reality of objects is independent of the human imagination (Mark Saunders, 2007).

This type of research considers that there is a reality disconnected from the human mind, that this reality does not depend on it to exist. This theory is completely contrary to idealism where only the mind and what is inside of it exists. Realism like positivism avails of a scientific approach to generate knowledge.

- **Interpretivism**

The adepts of this theory understand that the social business and management environment is way too compound and it should not be theorised by general 'laws' as the natural science. Opposite to positivism that prefers to conduct research among objects, interpretivists consider that rich insights can be lost by proposing general 'laws' applicable for all situations. This branch of theory considers the social world and how it changes. What is applicable for a situation today may not be applicable anymore in one month's time or in different situations, every situation is unique.

Interpretivism suits very well to this study because it considers the social world and how it changes, and understands that every situation has its own particularities, then this research has not the intention to create general “laws” that could be applicable to all organisations in all situations, the researcher also recognises the study limitations (e.g. small sample size, only seven participants, and also it is not possible for a case study to generalize its results to the entire population, regardless of the number of companies analysed).

Ontology

Ontology is interested in studying the nature of reality (Fisher, C. 2011). To a higher degree than epistemological considerations, this philosophy takes in consideration the researcher assumptions in relation how the world works and the different points of view. Ontology can be separated in three subcategories: Objectivism, Paradigm (navigates between two philosophies ontology and epistemology, will be explained) and Subjectivism.

- **Objectivism**

The fundamental concept of objectivism is that truth exists independently of consciousness and that objective knowledge can be achieved from sense through the process of conception and inductive rationale ((Rand, 1961) as cited in Jia Wang and Peyvandi, 2018, p.30).

- **Pragmatism**

The pragmatism philosophy argues that you should not think epistemology and ontology are rivals, but that one may fit better than the other depending on the research question. It also argues that it is completely possible to use both philosophies, it is the case of most studies with mixed methods qualitative and quantitative, this type of study is highly acceptable.

- **Subjectivism**

The subjectivist view is that social events are generated from social actors’ perceptions and consequent behaviour.

This study follows this idea in addition with the interpretivism because it believes that the value add to an organisation through an independent IAF may differ in the eyes of the different agents in the organisation. For example cited in the literature review is that the top management of WorldCom had a philosophy of value add and the way that the IAF would add value to them would be through carrying out operational process and leaving behind what IAF in its concept must do.

The social actors studied in this dissertation are internal auditor members and management. A case study was conducted with internal auditors and managers from different industries in Brazil, and the research aims to find out the different perceptions about IAF and how it adds value to the organisation.

This study adopted the two philosophies mentioned above (epistemology and ontology and their subcategories interpretivism and subjectivism), as it aims to know the value that internal auditors can add to the organisation in their own perception and the value that is perceived by the management, as a contrast of realities. Another reason to adopt these philosophies is that the IAF gained much more attention in the recent years after many scandals in huge corporations, that shows us a change in perception of the IAF especially by regulatory bodies and management who now may see it as a tool to assist their work. The researcher also will be as much as possible unbiased when analysing the data to give it more credibility.

Axiology

“Axiology is a branch of philosophy that studies judgements about value” (Mark Saunders, 2007, p.110). This choice of philosophical approach represents the researcher’s beliefs, as does the choice of techniques for data collection. This philosophy divides in four paradigms: Functionalist, Radical Humanist, Radical Structuralist and Interpretative.

- **Functionalist Paradigm**

It is regulatory in that is likely to be more interested in a logical explanation of why a specific organisational issue arises and creates a collection of guidelines within the existing management structure of the organisation.

- **Radical Humanist Paradigm**

This paradigm is concerned with change in the status quo, this type of researcher assumes a critical viewpoint on organisational life.

- **Radical Structuralist Paradigm**

Based on Günbayi and Sorm (2018) the aim of the radical structuralist paradigm is to explore the structural conflict, the current forms of dominance, inconsistencies and deprivations that induce a radical shift in society, and to provide critique in social relations or status quo. This also stresses the need to eliminate or remove the constraints placed on social and organisational structures.

- **Interpretive Paradigm**

Interpretive researches assume that the truth consists of the external world's subjective perceptions of people, they follow the path that reality is socially constructed. This is the paradigm more appropriate to this study, as it wants to find out what is the value added by IAF in the organisation as perceived by management and also the internal auditor themselves.

This section addressed the philosophies that this study followed, they are the epistemology and ontological philosophies with characteristics of interpretivism and subjectivism theory linked to the interpretative paradigm, which best fit with this study since it is a qualitative study.

3.2.1 *Research Approach*

There are basic two approaches and most researches are conducted using them, the deductive approach more related to a positivism philosophy and the inductive approach. Those two approaches have particular differences between them, however, the researcher must not see them as exclusive, they can perfectly fit together in a single study.

- **Deductive**

The researcher who uses the deductive approach first will develop a theory and hypotheses and then test it through the research to see if the hypotheses are true. They do

it through the use of empirical data (quantitative), this is a repetitive and exhausting process, as the hypotheses may not prove true at first attempt they may keep generating and testing new theories and hypotheses, this type of approach suits better to quantitative research.

- **Inductive**

The inductive approach is the approach that is being utilised in this study, as this is a qualitative study this is the best fit for this research, also the strategy adopted is a case study, therefore only a small sample is being taken to analyse, then it would make unviable the use of a quantitative approach. This dissertation does not aim to create generalisations but find out if patterns found in the literature review exist in reality.

In the inductive approach the researcher develops his/her theory through the collection of data, we can say that in this type of approach the theory follows the data. As this study has an inductive approach, the theory is constructed from the data, saying that the theory adheres to the data and is refined during its collection process, unlike the deductive approach that creates the theory and hypothesis beforehand and then uses the data to test it, that is, the data follows the theory.

Qualitative methodologies are inductive, that is to say, guided towards discovery and process, have high validity, are less concerned with generalisability and are more concerned with a deeper understanding of the research question in its specific sense (Ulin, Robinson and Tolley, 2004 as cited in Antwi & Hamza, 2015).

The researchers (Antwi & Hamza, 2015) made a table explaining the principal differences between both approaches.

Table 2: Differences Between Quantitative and Qualitative Approaches

<i>Differences between Quantitative and Qualitative Research Approaches</i>		
Orientation	Quantitative Approach	Qualitative Approach
Paradigm/Worldview (assumption about world)	Positivism/Realism	Interpretivism/Idealism
Research Purpose (rationale)	Numerical description Causal explanation Prediction	Subjective description Empathetic understanding Exploration
Ontology (nature of reality)		
Epistemology (theory of knowledge)	Dualist/Objectivist	Subjectivist
Methodology (aims of scientific investigation)	Experimental/Manipulative	Hermeneutical/Dialectical
Research Methods (techniques and tools)	Empirical examination Measurement Hypothesis testing Randomization Blinding Structured protocols Questionnaires	Ethnographies Case studies Narrative research Interviews Focus group discussion Observations Field notes Recordings & Filmings
Scientific Method (role of theory)	Deductive approach, testing of theory	Inductive approach, generation of theory
Nature of Data Instruments	Variables Structured and Validated-data collection instruments	Words, images, categories In-depth interviews, participant observation, field notes, and open- ended questions
Data Analysis	Identify statistical relationships among variables	Use descriptive data, search for patterns, themes ad holistic features and appreciate variations
Results	Generalizable findings	Particularistic findings; provision of insider viewpoint
Final Report	Formal statistical report with: <ul style="list-style-type: none"> • Correlations • Comparisons of means • Reporting of statistical significance of findings 	Informal narrative report

Source: Antwi & Hamza, (2015)

As we can see in the table above, the two approaches may be quite different, but it does not hinder the use of both in a single research, it will depend on the research question, the author's beliefs and abilities to manage all the data and steps necessary to conduct such research.

3.3 Research Strategy

Research Purpose

The most widely used classification of research purpose in the literature of the research methods is the triple one of descriptive, explanatory, and exploratory.

- **Descriptive**

The descriptive study is more concerned with producing an objective description of a particular phenomenon, population or situation. This type of research does not intend to draw conclusions from it, only to describe it objectively.

- **Explanatory**

The Explanatory study takes a step further and investigate the reasons behind the occurrence of a particular issue, by exploring a causal relationship among fundamental variables.

- **Exploratory**

The exploratory study is a valuable way of conducting a study to gain a better understanding of a current issue/situation and gain insights into the topic in question.

Align with the research philosophy, methods and paradigm, this study covers an exploratory purpose, as interpreted by Saunders *et al* (2019), the benefit of an exploratory study is that it's versatile and adaptable to change, giving freedom to the author to change their hypotheses and direction during the development of the study.

Strategies

Among the strategies that we can find in the literature and following the research onion figure, there are seven strategies: Experiment, Survey, Action Research, Grounded Theory, Ethnography, Archival Research, Case Study.

- **Experiment**

Experiment research seeks to find causal relationship between two or more variables, if a change in one independent variable will cause a change on one dependent variable, this type of research is developed in a highly controlled environment.

- **Survey**

The survey strategy has an advantage in that it allows the researcher to collect a large amount of data through questionnaire in a low cost way, the sample size is calculated accordingly with the size of the population being studied, usually after the data is collected it is standardised allowing the researcher to make comparisons.

- **Action Research**

Saunders *et al* (2019) define action research as being involved in an active way to promote a change in an organisation (usually this researcher is part of the organisation) and involves close collaboration between practitioners and researchers.

- **Grounded Theory**

This strategy is related to the inductive approach as it develops a theory from the data collected, observations and/or interviews, usually this researcher is concerned with creating a new theory.

- **Ethnography**

More usually used in anthropological research, this strategy is concerned with learning about another way of life present in a different society, the fundamental here is learning from how they live their life, rather than using them as an object of study they are the source of study then the learning process comes from them.

- **Archival Research**

As the name suggests this type of strategy concerns with past events and uses records and other types of documents as sources of data.

- **Case Study**

A case study can be defined as “an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” Yin, (2009, p.18).

A case study has the potential to generate insights from detailed and in-depth analysis of the study of a phenomenon within its actual context, resulting in rich and empirical definitions and theory development (Saunders *et al* 2019).

The research strategy chosen by the author of this study is a case study. For practical reasons, this research concentrates on only a single department of different companies, the internal audit department.

The collection of the data was by an open questionnaire sent out to the participants, documents, companies’ website.

3.3.1 *Methods Choices*

A researcher has three method choices for data collection technique; mono method, mixed methods and multiple methods.

- **Mono Method**

In case a research is conducted using only a single data technique (mono method), this means that either the research uses qualitative data collection with qualitative data analysis procedures or quantitative data collection with quantitative data analysis procedures without combining them.

- **Mixed Methods**

The mixed methods differ from the multiple method because it means that the research is conducted by combining qualitative and quantitative data collection techniques and analysis procedures, in this case the researcher is free to combine methods and techniques to answer the research question, he/she combines qualitative and quantitative data collection techniques and different data analysis procedures.

- **Multiple Method**

The multiple method means that more than one type of data collection technique is used with respective analysis procedures. This method does not combine qualitative and quantitative techniques, however, they still will use more than one data collection technique, for example qualitative techniques may conduct interviews and recorded documents and then use qualitative data analysis procedures.

This research is conducted using the multiple methods because the author combined different data collection techniques such as open questionnaire sent to the participants, academic literature, significant researches done in the field of the internal auditing, important newspapers, magazines of business, the companies' website, and other relevant archive of public domain. The aim of using various data sources and techniques is to give higher credibility to the information presented and to find convergent patterns.

3.3.2 *Time Horizons*

Based on our research onion presented in the beginning of this chapter, a research is either conducted in a cross-sectional time horizon or in a longitudinal time horizon.

- **Longitudinal Time Horizon**

The longitudinal time horizon is related to researches that wants to analyse the changes in the variables over long period of time usually conducting analyses of past studies, surveys and documents.

- **Cross-Sectional Time Horizon**

The cross-sectional time horizon is related to studies carried out at a particular time, a "snapshot" of the current situation, this study uses this time horizon because the author wants to find out the current view in relation to IAF and how it adds value to the organisation.

3.4 Collection Primary Data

In order to have a better understanding of how internal audit department can add value to an organisation, a case study was conducted in different companies of different industries, to give it a broader scope even though the researcher knows the limitations of this study and does not intend to generalise the findings as it only was consider a small sample (seven professionals).

The questionnaire was addressed to internal audit members and members of management of the companies (seven professionals in total, among them 4 were internal audit managers, one senior internal auditor and two members of the management of different companies), as this research is about if and how internal audit adds value to the organisation. And according with its framework the author wants to find out the auditors' perceptions of their value added and managers perceptions of it, then compare them with the literature.

3.4.1 Sources

As a primary source of data an open questionnaire was conducted, the questionnaire took place between April and May 2020.

In order to achieve the triangulation of information, more than one data source is used, for example, as a secondary data, past researches is utilised, electronic magazines, newspapers, companies' website, internal audit charted reports any relevant document of public domain.

3.4.2 Access and Ethical Issues

This research was carried out through an open questionnaire with the professionals of the internal audit department of different companies and industries, that is, it is essential that high ethical standards are adopted. To achieve this, the researcher took all necessary measures to establish that ethical standards was addressed, the participants of this research was informed before and after the questionnaire, their rights, for example, the right to

withdraw at any time, data protection, how it will be stored and how the identity of the participants will be maintained.

From the first contact with the participants, the information was clearly presented to them. The contact with them was firstly by email, where the questionnaire was sent to them with a plain language statement and a consent form that they must sign, it gives the researcher their permission to conduct this research in accordance with the ethical standards needed and required by Griffith College Dublin, these documents involve all the pertinent information the participant needs to be aware of before they agree to take part in this study.

The main information presented to them in the first contact was the purpose of this study, a schedule with the topics that was explored so they could raise any issue that they might have with it before the questionnaire took place, allowing the researcher to take the necessary steps to address it if needed and all the information regarding their rights and data protection.

Ethical measures that the author of this study made sure to address before/after the questionnaire:

- Make sure the participant is aware that his/her participation is voluntary.
- Obtain the consent form, where the interviewee consents to his/her participation in the study.
- Inform the participant of his/her right to withdraw from that study at any time

Measures to be taken after the question:

- Ensure that participants, organisation and any sensitive details remain confidential.
- Data protection.

This research shall keep the honesty and trust that is coherent with Griffith College Dublin established agreements (along with The Social Research Association's Ethical Guidelines) and terms and conditions of the College.

3.5 Approach to Data Analysis

Once all the relevant data was collected via all the procedures techniques mentioned above, the data was organized to facilitate the analysis of all the information gathered during this study, such as, open questionnaire, documents, literature, and other relevant archives. The approach chosen for this research is the thematic analysis, it gives much more flexibility to researcher in analysing the data, because it does not have to follow a particular research philosophy.

Braun and Clarke (2006, p.79) state that thematic analysis is just a "method for identifying, analyzing and reporting patterns (themes) within data", with this in mind, it is possible to use this method either inductively or deductively, as it has a wide applicability and poorly defined boundaries.

In the literature we can find various different approaches, that said, the thematic analysis differs from other approaches and at the same time it can share some similarities. For example compared to Grounded Theory the thematic analysis does not intend to build a new theory. Different to Template Analysis it does not seek to generate a set of codes prior to and after data collection, does not emphasize the use or function of the language as the Discourse Analysis and much different to Hermeneutics does not give much attention to the symbolic definition of communication (O'Gorman, K. and MacIntosh, R., 2015).

To Braun and Clarke (2006, p.78) thematic analysis can be thought as “foundational method for qualitative analysis”. The main objective of this approach is to seek themes or patterns, that materialise in the data set, the researcher achieves it by coding the qualitative data they obtained then determine themes and patterns for deeper analysis (Saunders *et al* 2019).

A method of analysis must already be adopted from the moment of the data collection, from the very initial research procedures it can be seen that the researcher is already

analysing his results. In this context, the analysis is present at many stages of the investigation, becoming more structured and formal after the data collection has been closed Clarke, (2017).

The data analysis in this research followed the phases of thematic analysis showed in the table below:

Table 3: Phases of Thematic Analysis. Adapted from Braun and Clark (2006)

Phase	Description of the process
1. Familiarisation with the data	Data transcription (if necessary). 'Active' reading and writing down initial ideas.
2. Generating initial codes	Coding data (posteriori) in a systematic fashion across the entire data set.
3. Searching for themes	Re-focusing the analysis at the broader level. Forming codes into potential themes.
4. Reviewing themes	Checking themes against the coded extracts and in relation with each other. Forming a thematic 'map' of the analysis.
5. Defining and naming themes	Further refinement of identified themes. Locating the overall story of the analysis.
6. Producing the report	Writing-up the analysis results with vivid extract examples and comprehensive commentary.

Source: (O'Gorman, K. and MacIntosh, R. 2015)

- Familiarisation with the data: all the questionnaires were read several times, and all the insights from them were noted.
- Generating Initial Codes: the codes were identified in the data set.
- Searching for themes: the codes were grouped more broadly, then transformed into potential themes
- Reviewing themes: the themes were reviewed and compared to the coded extracts giving it a robust structure.
- Defining and naming themes: the themes were redefined to give a better idea of what is contained in the data set collected giving more structure to the analysis and making sure that the themes are linked to the data.
- Producing the report: the report was finalised with the results of the analysis and with some extracts taken from the data transcript, with coherent comments.

Following these steps, the research objectives should remain the main focus in order to link the results of the qualitative research with the research questions. After that, in order to interpret the information sets and interact with the questions posed by the data analysis, the researcher shall discuss the findings found with the concepts presented in the literature review.

3.6 Conclusion

This chapter is a very structured one, based on the literature and the research onion shown at the beginning of it. It discusses all the points addressed in the research onion and goes beyond, explaining how this research is being conducted.

The philosophy or better saying the philosophies that guided this project are epistemology and ontology, as this study is seeking to have a better understanding of the internal audit department, and how it can add value to an organisation and why it gained more attention recently, demonstrating a change in the social construction of this function and the perception of the social actors related to this profession.

As this is entirely a qualitative study the approach in this research is considered inductively as the theory was constructed from the data collected instead of a deductive approach that creates the theory beforehand and then analyses the data.

The strategy of this study is a case study, as it focuses only on the internal audit function as a means of generating value for a company and a have a better understanding of it in the actual context, in addition to that it aims to use a small sample of participants.

The choice for collection of the data is the multiple method, as the data is collected through various sources, such as, literature, magazines, reports, newspapers, open questionnaire addressed to the participants of this study, and other relevant documents in the public domain, the aim behind it is to create a triangulation of the information to make sure that the data is giving us a clear picture.

This chapter concludes by explaining the data analysis approach, detailing how it was conducted and justifying the choice of thematic analysis, especially because of its flexibility and because it is aligned with the entire structure of this research.

4 Presentation and Discussion of the Findings

4.1 Overview

This chapter presents the researcher findings, similarities and differences from the literature, the findings are supported by passages of the participants responses, the discussion of the findings are made through the presentation of the findings.

This research findings most of them converge with the literature with small differences, an important finding of this research is that it focused on understanding the management perception about IAF and it confirms that over the time management is realising how it can be an important tool to enhance the business, this differentiate this study from the others for giving attention to this issue where the past studies ignored it.

4.2 Findings

Before any discussion takes place, it is wise to give the reader a background of the participants of this study, see table below:

Table 4: Participants Classification

Function	Respondents	Industry	Position	Qualification	Number of years of experience	Number of years working for the company	Number of years working in that position
Internal auditor	Respondent-1-IAM- J	Tecnology and Retail	Internal audit manager	Bachelor in Business Administration and Postgraduate in Business Management	13	6	3
	Respondent-2-IAM-C	Logistics	Internal audit manager	Bachelor in accounting and postgraduate in internal audit	25	7 months	7 months
	Respondent-3-IAS-M	Financial	Senior Auditor	Not informed	10	2	2
	Respondent-4-IAM-P	Automotive Logistics	Internal audit manager	Graduated in Business, MBA in Controllershship, Audit and Finance	12	8	5
	Respondent-5-IAM-MP	Oil & Gas	Internal audit manager	Bachelor in Business	20	6	6
Member of Management	Respondent-6-MM-L	Bank	General Manager in Business Unit	Bachelor in Business and Postgraduate in Controllershship and Finance	9	9	4
	Respondent-7-MM-E	Beverage	Financial Administrative Manager	Graduated in Administration and Finance and Post-graduated in Corporate Finance	20	9	1

Source: Author

The discussion over the next sections will refer to respondents by their number, respondents 1 to 5 are internal auditors and respondents 6 and 7 are members of management, another way to identify respondents is to pay attention to the first two letters that appear just after the number where IA is for internal auditor and MM is for management member.

4.2.1 *Internal Audit Structure and its impact on audit performance.*

The structure of the internal audit department is the fundamental importance for it fulfil its duty, without the necessary resources, the department can not do its job properly and it has impact on the internal audit plan and its execution.

In this context resources mean people to execute the necessary analysis process, budget to acquire IT tools, to visit audited units, keep staff on constant training and development and time to allocated the required hours for each task, the resources available to the internal audit team will impact on the internal audit plan, for example how much of the business risk will be covered and if any area will have to be left behind.

With the codes generated by the questionnaire we can capture this picture in the respondents answer to the question about the internal audit structure, that's the question: In your view, does the internal audit department in your company have sufficient resources (people, budget, time) to perform its duty? The data shows that an internal audit structure impacts on the business risks coverage, see some responses below.

Table 5: Data Analysis and Sample Quotes

Document	Coded Segments
Respondent-1- IAM- J	I think we need a bigger squad to cover more of the company's risks. Today, with the current team, we are able to cover a good part of the risks of a certain business of the company, which is the retail. But there is a lot of work to be done. I see the need to increase the staff to increase the coverage of risk analysis and fraud. And I agree with the question, as to whether people, budgets, interfere directly in the quality of performance of the audit area

Respondent-2- IAM- C	The Audit area was implemented in Sep/2019 and has only 1 Human Resource. In order to circumvent the question of time, the universe to be audited was mapped and the annual plan was elaborated focusing on the processes of greater financial representativeness / relevant risk.
Respondent-3- IAM- M	The company is currently undergoing a restructuring process, where a small financial company has acquired several other companies, including a bank, which considerably changes the concept of internal auditing, which until then was considered sufficient. In this process, the area is undergoing a restructuring of personnel, concepts and systems.
Respondent-7- IAM- E	No, in view of the fact that there is no frequent representative of the area (Audit) in the subsidiaries, where it is essential to follow the routines, processes and legal obligations.

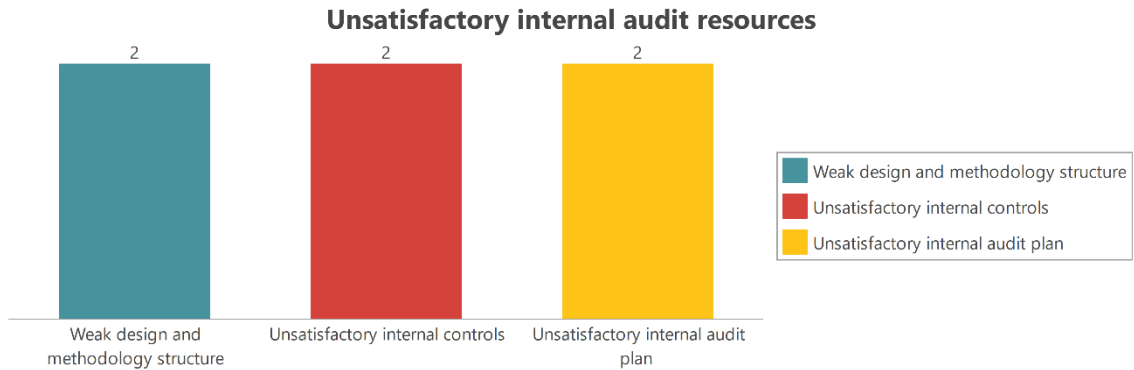
Source: Author

As we can see from these responses from the internal auditors and one member of management (respondent 7), they recognise the need of more internal audit resources in their department and as consequence parts of the business risks are uncovered, respondents 1 and 2, seemed to have satisfactory internal audit resources but they recognise the need of more resources to cover more areas of the business, however respondents 3 and 7 appear not to be very happy with the amount of resources available to the internal audit department.

From the data collected by questionnaires it seems that most of the internal audit departments are satisfied with its business risk coverage, 5 out of 7 respondents answered that they are satisfied with their internal audit resources, however, 2 out of 5 said they are satisfied but recognise the need of more resources, the respondents that are not satisfied with the internal audit resources are respondent 3 and 7, respondent 3 is a senior auditor and respondent 7 is a member of management.

As mention in the literature as one reason of failure of the IAF in performing its duty is the lack of internal audit resources available, our data collection from this study confirms that, see the figure below.

Figure 3: Unsatisfactory Internal Audit Resources

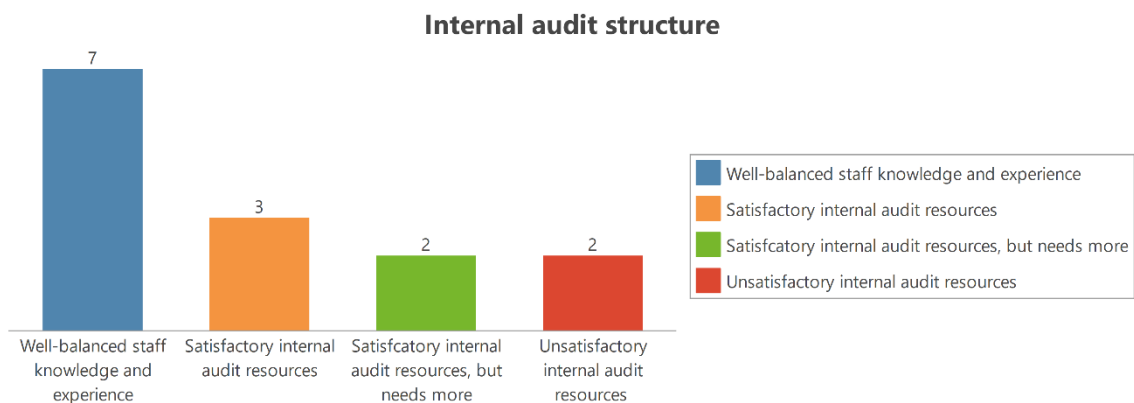


Source: Author

The only two respondents that stated that the internal audit department has not enough resources are the only ones who presented these problems, weak design and methodology structure (report-framework), unsatisfactory internal audit plan (low risks coverage) and unsatisfactory internal controls, those issues mentioned are not part of internal audit resources, nevertheless, they are issues linked to the lack of internal audit resources, this link was found through the analysis of the responses of the participants to other question in the questionnaire.

One information that brings attention is that 7 out of 7 respondent said that the internal audit department is well balanced in terms of staff knowledge and experience, even though two of them are not satisfied with the amount of internal audit resources available, figure 4 below shows it:

Figure 4: Contrast Between Internal Audit Structure and Internal Auditors' Knowledge and Experience



Source: Author

This is a very good result as it shows that internal auditors are well prepared to perform their duty, also from the respondents responses, internal auditors expressed their concern with their responsibility of being in constant learning process.

Table 6: Data Analysis and Sample Quotes

Document	Coded Segments
Respondent-1- IAM- J	we have developed a lot the personal side, focused on courses and specializations in the current market of internal audit and risks.
Respondent-2- IAM- C	it is the audit professional's responsibility to constantly search for knowledge and updating, to participate in groups related to the area, besides attending courses and lectures, not only on audit methodologies and techniques, but also on diverse subjects that impact the day-to-day of companies, such as accounting, financial, labour, etc. Currently, it is also necessary to obtain knowledge related to the methodologies focused on the digital universe to which companies are increasingly moving

Source: Author

The author of this study did not find any literature directly related to this issue as a result it was not addressed in the literature review chapter. Nonetheless, some literature not directly related to it but still somehow linked to this is the difficulty around hiring talented staff for internal audit position. In 2007 Ernst & Young conducted a survey where it stated “the ‘war for talent’ continues to be the greatest challenge for many internal audit functions ... it struggles to attract and retain ‘the right type of talent’ ... [leading] to gaps in Internal Audit coverage and challenges in completing the Internal Audit plan” (E&Y 2007, p.6). Burton *et al* (2015) noted in their study that participants were less likely to apply for a position classified as an internal audit than were similarly formulated positions that modified the description of the position from internal audit to accounting.

4.2.2 *Challenges for Internal Audit Function within the value creation process.*

The internal audit department of an organisation is part of a defence line that protects the business from risk (by reducing it), fraud prevention, making sure that the business is in

line with all the legal requirements and also the ethics and standard policies of the organisation and much more.

Although the IAF is not direct connected with a business cash generate unit in other words it does not generate direct profit for the business, it still being a considerable tool in the process of generating value for an organisation, due to its nature in most case the IAF generates intangible value, and it is a challenge for those who work in this field to prove their value.

One code that emerged from the primary data is as I call an misunderstanding of the IAF, 3 out 7 participants related something regarding this issue, the table below, shows the passages where the participants talk about it, nevertheless, one respondent in particular brought my attention, it is the case of respondent repondent-6-MM-L a general manager in business unit of one of the largest multiple banks in Brazil, where he raise his concerns about IAF in the company he works for, as he says it acts in a very punitive way leading sometimes to dismissal of employees.

Table 7: Data Analysis and Sample Quotes

Document	Coded Segments	Comments
Respondent-1-IAM- J	I see as very common the role of an audit department to be confused with the role of a business area. To the extent that area goals are linked to audit goals and losses or process malfunctions are attributed to audit performance, this is very delicate.	
Respondent-3-IAS-M	Personal resistance, since associates have a fixed idea that the audit area audits people. Every time I make it clear that I audit processes and not people. If there are gaps in the process, of two, one: either the process was designed wrong or the control is faulty.	
Respondent-6-MM-L	One of the most important factors that needs to be improved is to change this vision of punishment that exists in the audit processes, the control needs to have the character of guidance and improvement not only punitive.	The internal audit seems to act in a punitive way as it is described by the manager

Respondent-6-MM-L	Audit and internal controls almost always have an exclusively punitive character, failing to meet one of the main premises of the Audit, which is to provide improvements to processes through guidelines and improvements that can be applied. In our company, internal audits always generate unnecessary stress to the audited units, since there are constant exaggerated sanctions to the employees involved in the processes. They are almost always dismissals and many of these dismissals are reversed after being judged unfounded by labour justice.	
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Source: Author

The respondent Respondent-6- MM-L, stated that in the company he works for, the internal audit does not perform one of the most important functions of it that is to provide guidelines for improvements through coaching and advise process instead it acts in a punitive way, this finding is not align with the literature of this study.

A mistake made around IAF is where it is linked to a business area, this can impair IAF in the organisation, such as the case related by Zekany *et al* (2004) in the collapse of Worldcom, where IAF had to support its existence by doing more operational work where it could be quantified.

The table also shows that in some organisations there is still confusion around the IAF, because there is still personal resistance from employees, because they have the idea that the internal audit department is auditing them instead of the process, this issue was not addressed by the literature of this study.

Another challenge for the internal audit generating process can be management/board of the company, as sometimes it may be resistant or reluctant in understanding the necessity of having strong internal controls, the next table shows 2 respondent passages where the respondents state their dissatisfaction towards management, the questions asked were about the main challenges the internal audit department faces and whether or not they were satisfied with the internal controls of their organisation.

Table 8: Data Analysis and Sample Quotes

Document	Coded Segments
Respondent-2 - IAM-C	I believe that implementing the organizational culture and raising the awareness of Managers about the need to have strengthened internal controls is still one of the biggest challenges of internal auditing
Respondent-3 - IAS-M	No, because there is a lack of investment in systems for the continuous audit process, aiming at a better monitoring effectiveness of the auditable universe, besides the resistance of some boards in changing the culture of controls.

Source: Author

This can be related to the literature specially the Respondent-3-IAS-M where it seems to have a weak internal audit department structure in relation to their necessity, as it also has problems with unsatisfactory internal audit resources, unsatisfactory internal audit plan, weak design and methodology structure (framework-report) and unsatisfactory internal controls, it converges to the literature findings by (Hermanson *et al* (2008);Christopher,(2019)).

As the collection of primary data was conducted in Brazil a country with a continental dimension one challenge that emerge from the data is a concern with the coverage of all operation units, the problems are related to travel budgets, lack of internal audit personnel in the units spread all over the country, see table below.

Table 9: Data Analysis and Sample Quotes

Document	Coded Segments
Respondent-1- IAM- J	I see the requested x implemented improvements as positive, although I always understand that we need to look a little more at the travel budgets (I think it is a pain of most of the internal audit departments)
Respondent-4 - IAM-P	The biggest challenge is to have total control over all operations, when we operate in 13 different states and more than 30 municipalities.
Respondent-7 - MM-E	In the company I work for, there is a small Audit and Compliance structure in the Corporate (headquarters) that defines strategies without the ideal understanding, most of the time, of the processes at the ends (branches).

Source: Author

This problem was not directed addressed by the literature, but we can find something similar in the Hermanson *et al* (2008) findings about covering international risks, due to

the considerable travel and time costs involved, in their findings they also find problems with language and culture issues but those two do not apply in this case.

Another finding of this study is the problem with the implementation time of the recommendations, 4 out of 7 participants clearly declared a positive acceptance of the recommendations, however 3 out of 4 declared a dissatisfaction when it comes to the implementation time, as it usually takes longer than previously agreed.

Table 10: Data Analysis and Sample Quotes

Document	Coded Segments
Respondent-1-IAM- J	I see the requested x implemented improvements as positive
Respondent-2-IA-C	Acceptance of the recommendations has met expectations, but implementation itself has been somewhat slower, given the many priorities in the areas.
Respondent-4 IAM-P	All reports delivered by the Internal Audit, are accompanied by a Follow Up, which at each beginning of the month, the plans of actions overdue are verified and the charging is made to the responsible management, 90% of the action plans are implemented, but only half within the agreed deadline! In my view, it is not as efficient as I would like it to be!
Respondent-5-IAM-MP	The board of directors in Brazil and in the headquarters usually strongly consider the Internal Audit indications. Regarding the implementation of internal controls, we are still one step behind, but moving forward.

Source: Author

The table above shows the participants' dissatisfaction with the implementation time of their recommendations, which may reduce their validation and it can be seen as a challenge for IAF when it comes to the value generation process, however, the IAF seems to be gaining more status among the management and this problem may not exist in the long term, the next topic talks more about it.

4.2.3 *Change in management perception of IAF.*

This study as stated in the conceptual framework wants to find out the management perception of the IAF in the organisation. As the internal audit appears to have gained more status in the past years.

The results of this study show that there has been a change in the perception of the management in a positive way in relation to the IAF, since the results show that the top management is more inclined today to seek advice in the internal audit department, some of the reports show this change that in many cases is gradual.

The table below shows the responses of the participants when they were asked if management in their company has a culture of seeking advice from the internal audit department.

Table 11: Data Analysis and Sample Quotes

Document name	Segment
Respondent-1-IAM- J	It is something that's still in formation. The audit department is something that the company has had for a short time (6 years) and, much of this time we have been with low demand of personnel and centralized focus for a certain area of the company. Since a while we have been focusing more on various areas of the company and this culture has been created and has great support from the board and presidency. I see with very good eyes.
Respondent-2-IAM- C	Not yet, particularly since Audit in this company was recently created (Sep/2019). I believe this is an achievement that is obtained as the results of the work begin to appear.
Respondent-3-IAS-M	Quite a lot, because they always use the justification of "it was the internal audit that ordered it to be done like this", without wanting to understand why it should be done like this.
Respondent-4-IAM-P	We are always consulted by the areas, Internal Auditing is a respected area within the company and managers have the habit of questioning us when doubts appear in certain processes, especially when we are about to obtain a new customer or launching a new product.
Respondent-5-IAM- MP	There have already been two phases. About 10 years ago many of the audit indications were not implemented, recently, when I was already in charge this was no longer the case. The board of directors in Brazil and in the headquarters usually strongly consider the Internal Audit indications. Regarding the implementation of internal controls, we are still one step behind, but moving forward.
Respondent-6-MM-L	NO. Audit and internal controls almost always have an exclusively punitive character, failing to meet one of the main premises of the Audit, which is to provide improvements to processes through guidelines and improvements that can be applied. In our company, internal audits always generate unnecessary stress to the audited units, since there are constant exaggerated sanctions to the

	employees involved in the processes. They are almost always dismissals and many of these dismissals are reversed after being judged unfounded by labour justice.
Respondent-7-MM-E	It is still little, because the culture of large organizations founded by a family group like mine still has certain restrictions in this sense, but this has changed every day and I have noticed this change.

Source: Author

Given the above, first is wise we note that the first five answers come from internal auditors, following their view it is noticeable a change in management perception in relation to the internal audit department, as the internal auditors say usually they are being consulted by the managers.

In most cases, in their perception the internal audit department is viewed with respect and management already has the culture of consulting them for advice or this is information into the organisation, is something that has grown over time or the approach of managers has changed, as noted in Respondent-5-IAM-MP, where the internal auditor says that in the past, about 10 years ago, the suggestions of internal audit were basically ignored, however, this scenario has changed and senior management strongly accepts the suggestions of internal audit at the moment.

Nevertheless, 1 of the internal auditors had a different point, Respondent-3-IAS-M states that in the company she works for, the management consult them quite a lot, yet it seems they do that because they just do not want to be blamed when something goes wrong and they use the justification that it was done like this because it was a recommendation of the internal audit department, as they internal auditor noted that they are not willing to understand why it should be done in that way.

Based on the analysis of the members of the management, separated from the analysis of internal auditors, we do not have a clear picture of their perception, as follow Respondent-7-MM-E says that, in his opinion, this is something small in the company he currently works and this is common in large companies founded and controlled by family groups, however, he states that a change is happening, and he noticed this, this corroborates with internal auditors point.

Following the analysis management perception, Respondent-6-MM-L has a different point, but this is a special case because a member of management reports that the internal audit in the company for which he works acts only in a punitive way, failing to provide

improvement guidelines, one of the fundamental functions of an IAF and this makes the members of management avoid consulting this department for advice.

One limitation of this study is the number of members of management consulted, as we note only 2 respondents, numbers 6 and 7 work in management position, following that reasoning we cannot have a clear picture of the managers view in general, as one state a positive change and the other does not corroborate with it, yet when we link it to the perception of the internal auditors in relation to the management perception of the internal audit department is safe to say that management perception is moving towards a better understanding of the internal audit department, it appears management is beginning to see the IAF is a aid tool to them.

This finding is not addressed in the literature review as it was said in the conceptual framework, the previous studies analysed by the author did not aim to discover the managerial perception or the change that is happening in the managerial perception in relation to the IAF, which makes this study different from the others and contributes to the literature bringing new insights around this area.

4.2.4 Main Values Generated by Internal Audit Department

The internal audit department usually works as a line of defence of the organisation, so one of its main functions is to avoid losses to the business or minimise them, and this is done by conducting review processes, verification and monitoring of the issues identified, making this department assure the board that the internal controls are working effectively, the risks of the business are being managed, fraud preventions is being monitored and ensuring that the company is complying with legal requirements, laws, company policies and ethics.

The findings in this topic are very aligned with the literature review where the findings are very similar to those ones found in it and there is not much difference between them.

In relation to the question of how and internal audit department can add value to the organisation, the code that was the most cited in the data was compliance with laws, company's policies and ethics, this code is present in 6 out 7 participants responses, see some of the participants passages about it.

Table 12: Data Analysis and Sample Quotes

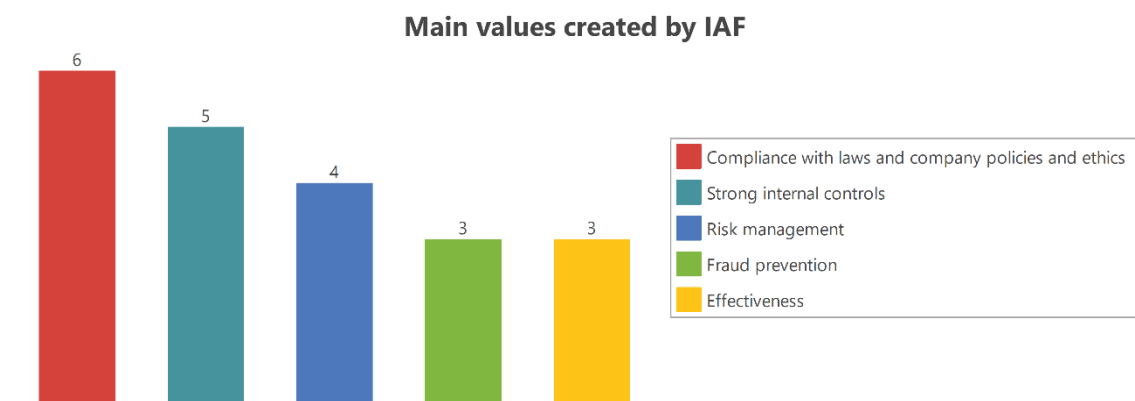
Document name	Segment
Respondent-2-IAM-C	The process that generates value within Internal Audit is to avoid relevant losses with frauds, deviations and fines for non-compliance, we must be attentive to the audited processes and accurately point out possible non-conformities, which may bring losses to the company
Respondent-4-IAM-C	Ensure that the policies are implemented in accordance with the determinations of Senior Management.
Respondent-5-IAS-M	With regard to improved compliance, there has been a significant reduction in government fines.

Source: Author

The explanation to this may be that those companies run their business in a very regulated industry and compliance with laws and regulations is a must, the companies analysed are part of financial industry, bank, oil and gas, tech and retail, logistics, automotive logistics and beverage, sectors that usually are very regulated by the government. Compliance is one of the fundamentals functions of an internal audit department it was well covered by the literature of this study.

The participants noted a quite wild range of how the internal audit adds value to the organisation, but the most referenced ones are shown in the figure below:

Figure 5: Main values created by IAF



Source: Author

The number showed at the top of each bars represent the number of questionnaires that each code appeared.

As we can see from the chart above all those values are already addressed in the literature as they are part of the premises that supports the existence of the IAF. Another point that

was addressed by the literature and confirmed by this study is the complexity around measuring tangible values generated by IAF. Participants when asked about how the IAF generate tangible value, they always related the answer to one or more of those values by saying that it somehow would turn in tangible value to the organisation, usually reducing the losses, fines and giving more transparency and credibility to the business.

The others way of how an IAF adds value cited by the participants were, standardisation of process, identify room for potential improvement, ensure that the information provided in management, financial and accounting reports is reliable, easy and straight forward reports, generate greater credibility to the company which results in more business, lower external audit fees and better safeguard of company's assets.

This topic did not bring anything new, but it confirms the results found in the literature, which is a good sign.

4.3 Conclusion

The findings in this chapter were extracted from a questionnaire applied to 7 participants 2 of them members of management and 5 internal auditors, the majority of the internal auditors are internal audit managers or senior staff which gave to the study wealth details.

This chapter firstly focused in the internal audit structure and how it impacts on IAF in performing its work, it converged with the literature where it shows that an internal audit department with insufficient resources is much more likely to have other problems, only 2 out of 7 participants stated that they have no sufficient internal audit resources and they were the only ones who also had problems such as, weak design and methodology structure, weak internal audit plan, and dissatisfaction with the internal controls. The interesting point about internal audit structure is that all the seven participants stated that the internal audit department are well-balanced in terms of staff knowledge and experience, this was not found in the literature, actually the literature was contrary as it shows that internal audit departments struggle in hiring and keeping talented staff.

The challenges faced by the IAF in generating value also converged with the literature, but one case drew attention to where a participant noted that in the company for which he works, internal auditing fails in its duty to provide improvement guidelines, but instead would only act in a punitive manner, which causes the company's employees to fear the internal audit department and avoid seeking advice from that department.

This research also brings new insights into the management perception of the IAF, which makes this research different from others, as they did not have this focus, also confirms the researcher's assumptions that management is realising that the IAF can be a powerful tool to improve the business and strengthen it.

The best way to describe how management has learned to use the IAF is by looking at their acceptance of the internal audit suggestions and especially considering the internal audit opinion before making a strategic decision such as starting activities with a new client or launching a new product. This shows that they recognise that IAF is the company's line of defence because this department is responsible for managing the risks of the business.

The main values created by the IAF as was stated in the literature due to its nature mostly are intangible and it can be very complex to monetize it, the answers of the participants show this, as they could not measure it. Mostly they related the question about tangible value to the value created by fraud prevention, compliance, risks management and better internal controls.

5 Concluding Thoughts on the Contribution of this Research, its Limitations and Suggestions for Further Research

5.1 Implications of Findings for the Research Questions

The research aimed to bring insights about the internal audit function. This department has gained more status lately in practice and in the literature. After many scandals involving large organisations in recent decades, the internal audit function has gained more visibility, previous studies show that a strong, independent and competent internal audit could have avoided/prevented most of the scandals. This study tried to gain a better understanding of how the internal audit function can add value to an organisation and how it can improve an organisations' overall performance.

The IAF appears to be a powerful tool that may help management guide the business in a more assertive way and keep the business risks under control by managing them.

The research objectives and research questions that guided this study are:

1. Identify the main challenges faced by the internal audit function in performing its duty.
2. Evaluate if the internal audit does what is supposed to do by its concept.
3. Evaluate the main values generated by the internal audit function for the company.
4. Evaluate if the value generated by IAF is perceived by management.
5. Explore management perception about the internal audit function as a tool to assist the organisation achieve its mission.

- **Findings from literature for research objective 1:**

The internal audit structure is really important as a lack of resources may impair it to perform its duty, via not covering all the great risks faced by the organisation or/and not checking proper the company's compliance with laws, standards and process, leading it to weak internal controls. Internal audit department also encounter issues to cover all the units of the business especially international units.

Another challenge that internal audit departments sometimes face is little independence and support from management leaving the department with little power into the organisation. The implementation time of the internal audit suggestions may take much longer than previous deadline and it may impair potential results.

The set-up of the internal audit department and its design of its framework-report, in most cases is up to the company and it can lead to management interference in the internal audit department so it may not have the adequate focus on the governance oversight and financial controls.

- **Findings from literature for research objective 2:**

The main values are, strong and better internal controls, ensuring management that the process are running efficiently and effectively, better risk management, detection of fraud, compliance with laws, legal requirement and company ethics and standards, safe guard the company's assets, lower external audit fee, find opportunity for process improvement these value can be potentialized by easy and straight forward reports.

- **The research objective 3 was not addressed by the literature of this study.**

This is a quick summary of the research design, this is a qualitative study that follows the epistemology and ontology philosophies with characteristics of interpretivism and subjectivism theory, the approach utilised in this research was an inductive approach where the strategy of this study is a case study where the internal audit department of seven companies was analysed. The author used a multiple-method of data collection to give it more credibility. This is a current study then the time horizon of it is cross-sectional, the primary data of this study was obtained through open questionnaires sent out to participants of this study and the data was analysed following a thematic analysis approach.

- **Findings for research objective 1:**

Internal audit department with lack of resources are more likely to have other problems such as weak design and methodology structure framework-report, unsatisfactory internal audit plan and unsatisfactory internal controls. The department may face personal resistance, one possible reason for that is a possible misunderstanding of the function of

IAF in the organisation by personnel (e.g. line managers) or because it might act in a purely punitive way in some organisations which makes people avoid corroborate with their work.

The research was conducted with professionals based in Brazil that is a country with continental dimension then it was noted issues with covering remote units. Other challenges are that internal audit department may face lack of support from management and problems related to implementation time, even with the level of acceptance of the recommendations high, the internal auditors noted problems with implementation deadline.

- **Findings for research objective 2:**

Compliance with laws, legal requirements, and company policies was the value more mentioned in this study, it was mentioned by 6 out of 7 respondents. Better internal controls to ensure that key controls inside the entity are structured properly, working effectively and efficiently, better risk management, fraud prevention, effectiveness of process, identify room for process improvement, standardization of process eliminating the dependence of key personnel, clear and straight forward reports can potentialize these values.

- **Findings for research objective 3:**

Management in most companies are realising that the IAF can aid the organisation to achieve its mission, in most companies analysed usually management consults the internal audit department for advice before they make a strategic decision, in some cases this culture might not be formed yet, however, it is being changing as was noted by internal auditors and a member of management.

In some organizations the internal audit department may be so well respected by management and the board that its suggestions and recommendations are strictly followed, if a director chooses not to follow the recommendation, he or she may be asked to explain the reason for not following the recommendation.

5.2 Contributions and Limitations of the Research

As a theoretical contribution, it is worth noting that the research has tried to fill the gap in past studies that analysed the IAF, however, did not focus on management perception of it. It makes this study unique in this concept as it illustrates how the IAF is seen by management. Moreover, the analysis assesses the internal audit structure and its implications for the performance of its duty, and also determines whether problems with internal audit structure are associated with other problems.

The importance of the research is also linked to the demystification that internal auditing is a dead weight for the company because it acts in the line of defence and does not generate direct profit, however, as this study demonstrates the result of its work creates long-term value for companies, especially because it ensures that the information provided to management, financial and accounting reports are reliable, with greater transparency of controls, confidence in the company becomes greater for investors, suppliers, customers and employees and other stakeholders.

The study has also identified shortcomings in the IAF in the past and the reasons why this happened so this research can be valuable for regulators, the audit committee and senior management to understand the practices that can harm the IAF in its duty and thereby avoid them.

The limitations of the study can be explained following Yin (2005) methodology, for him there are three specific limitations to the case study method. According to Yin (2005) it is not possible to generalise to the entire population regardless of the number of companies analysed. In view of the above, it should not be assumed that the results of the analysis carried out in this study can be applied to all internal auditing departments and that in all organisations management is realising that the IAF can aid the organisation to achieve its mission. Another limitation is the number of participants, the analysis is based on 7 participants from 7 different companies, however, only 2 of them work in the management position, and one of the aims of this study was to analysis the management perception in relation to the IAF, due to the small number of managers in the sample the data may be compromised.

Yin (2005) also emphasizes the subjectivity resulting from data collection, the recording of the information provided by the interviewees and its analysis as a research limitation. The third limitation highlighted by Yin (2005) is the bias of the interviewees, considering that the interviews are personal, it is not possible to exclude the risk that the information obtained is biased, either because of interest, forgetfulness, omission, exaggeration or the interviewee's judgment on what information is important at the time of the interview.

To avoid bias in data collection, participants were given two options, either to conduct a semi-structured interview following a script or they could have the option to answer the questionnaire and send it back to the researcher. All 7 participants chose not to do the interview, the researcher believes that giving the participants the freedom to choose which method would best suit them could avoid some bias in data collection by making participants more comfortable participating in this study and responding the questions.

Although these measures were taken to limit any bias, the researcher could not eliminate the participant's personal bias, whether due to interest, omission, exaggeration or decision on which detail is relevant at the time of the questionnaire.

Another limitation of the study is that it did not assess the independence of the internal audit department, because this is fundamental for a good IAF in any organization, because this is one of the foundations of the IAF to fulfill its function as conceived by the institute of internal auditors, therefore, this represents a limitation of this study, this leaves an opening for future research in this field so that they can analyse this issue.

5.3 Recommendations for Practice

This study showed that IAF can aid the organisations overall performance, prevent losses and may prevent scandals due to its job in prevention of fraud, so then giving more transparency to the stakeholders, such as management, investors, employees, customers, creditors, suppliers, the greater credibility generated by it means in a long term more business as the organisation is seen positively by the market, therefore for it to happen the IAF should be/have:

- Independence with the power to freely report their finding.

- Have sufficient resources to cover all the major risks faced by the organisation.
- Have a well-structured design and methodology – report framework (regulators should look at it, usually the reporting framework is up to the company themselves, giving room for management manipulation).

5.4 Recommendations for Future Research

As the course of data analysis some subjects emerged from the data that is important to highlight and should be considered in terms of future research, these subjects can if further investigated provide a better understanding of the IAF in this context.

- Investigate the reason for personal resistance, it may be a misunderstanding of the IAF by the organisation personnel, therefore it needs further investigation.
- It was cited by the participants that most of the time the recommendations of the internal audit department are followed up, however, the implementation time can be unsatisfactory, further investigation could examine it and its consequences.
- It was cited by one of the participants that the internal auditing team would only act as purely punitive agent against staff and it made them avoid any contact with this department, future research could investigate this IAF characteristic it was not explored by the literature or by this study.
- As already mentioned, one of the limitations of this study is the lack of focus on the extent to which the lack of internal audit independence impacts on the performance of its duty, as a suggestion to future research it would be recommended to further explore this issue.
- Future researcher could replicate this study utilising more time and a larger sample size, and specially more managers to give a greater understanding of their perception.

5.5 Final Conclusion and Reflections

As a final conclusion, this work can be seen as a significant contribution to the development of literature around the IAF, as it brings new insights and also confirms the findings of the literature. The internal audit department may sometimes not be understood by management and staff and this makes the work of this department even more difficult.

The understanding that has been reached through the elaboration of this study is that companies could have much more benefits if they had a better understanding of the IAF, because this guarantees to the management that the internal controls are working correctly, the risks are being managed, which gives the company more transparency and credibility to continue operating.

The process of preparing this study was difficult due to the difficulties encountered by the researcher and the whole global issue of the Covid-19 outbreak that brought anxiety to everyone, many people lost their jobs and others fortunately had the option to work from home, but with this change in everyone's routine, it made it difficult to get access to people willing to participate in this study. Yet at the end of this process the author has a great sense of achievement and had a lot of learning throughout this process both on the professional and personal development of the author.

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Appendices

Appendix A – Questionnaire Protocol

Characterization of the participant and the company.

Respondent identification (confidential information that will not be disclosed):

- Participant Name:
- Participant Function:
- Participant Qualification:
- Number of years' experience?
- How long have you been working in this function?
- How long have you been working in this company?

Company information (confidential information that will not be disclosed)

- Industry:
 1. In the literature, evidences suggest that an internal audit function may fail in performing their duty when it lacks in people, budget, time... In your view, does the internal audit department in your company have sufficient resources (people, budget, time) to perform its duty? Please explain your answer
 2. In your opinion, is the internal audit department well-balanced in terms of staff knowledge and experience? Please explain your answer
 3. In your view, is the internal audit plan well-balanced in terms of covering governance oversight and financial internal controls? Please explain your answer
 4. Are you satisfied with the internal control effectiveness and efficiency in your organisation? Are your suggestions for asked for, improvement considered and/or implemented? Please explain your answer
 5. What are the main challenges faced within the value generation process for the internal audit department?
 6. In your opinion, does management in your organisation have a culture of seeking advice from the internal audit department? Please explain your answer
 7. In your opinion, what are the most important values created by the internal audit function for the organisation (enumerate as much as you judge relevant)?
 8. Among these values mentioned above, do any of them create tangible value (possible to measure? Please explain your answer

Appendix B – Informed Consent Form

I. Research Study Title

The research study is entitled as “**Does Internal Audit Create Value**” being conducted by Marcos Vinicius Santos Reis MSc student in Accounting and Finance Management at Griffith College Dublin.

II. Clarification of the purpose of the research

This study aims to gain a better understanding of how the internal audit function can add value to an organisation and how it can improve an organisations’ overall performance. After many scandals involving large organisations in recent decades, the internal audit function has gained more visibility, previous studies show that a strong, independent and competent internal audit could have avoided/prevented most of them. The outcome of this research study will help practitioners, researchers and companies better understand the internal audit function and how it can aid an organisation in achieving its goals.

III. Confirmation of particular requirements as highlighted in the Plain Language Statement

Participant – please complete the following (Circle Yes or No for each question)

<i>I have read the Plain Language Statement (or had it read to me)</i>	<i>Yes / No</i>
<i>I understand the information provided</i>	<i>Yes / No</i>
<i>I have had an opportunity to ask questions and discuss this study</i>	<i>Yes / No</i>
<i>I have received satisfactory answers to all my questions</i>	<i>Yes / No</i>

IV. Confirmation that involvement in the Research Study is voluntary

Participants’ involvement in this study is totally voluntary. As such, withdrawal is permitted from the Research Study at any point.

V. Advice as to arrangements to be made to protect confidentiality of data, including that confidentiality of information provided is subject to legal limitations

We fully intend to protect your anonymity and the confidentiality of your responses, within the limits of the law. In the final report, you will be referred to by a pseudonym. We will remove any references to personal information that might allow someone to guess your identity. The data collected will be analysed by the researchers alone.

VII. Signature:

I have read and understood the information in this form. My questions and concerns have been answered by the researchers, and I have a copy of this consent form. Therefore, I consent to take part in this research project.

Participants Signature: _____

Name in Block Capitals _____

Date: _____

Appendix C – Plain Language Statement for Research Participants

I. Introduction to the Research Study

- The research working title is “**Does internal Audit Create Value**”.
- The research is being conducted by Marcos Vinicius Santos Reis, a MSc student in Accounting and Finance Management in Griffith College Dublin.
- The researcher can be contacted at mvsdreis@gamil.com or mvsdr@hotmail.com

II. Details of what involvement in the Research Study will require

- Participants will be asked to complete a questionnaire that will take about 20-30 minutes to answer. After the answers being received, it will be organised and compiled.
- The questionnaire will be an open-ended questions form.

III. Potential risks to participants from involvement in the Research Study (if greater than that encountered in everyday life)

- It is not envisaged that there are any risks to participants arising from involvement in the study.

IV. Benefits (direct or indirect) to participants from involvement in the Research Study

- The outcome of this research study will help practitioners, researchers and companies to better understand the internal audit function and how it can add value to the organisation.

V. Advice as to arrangements to be made to protect confidentiality of data, including that confidentiality of information provided is subject to legal limitations

- The data collected will be analyzed by the researcher alone.
- Survey will be conducted anonymously thus participants answers will never be identified to each of them in the dissertation.

VI. Advice as to whether or not data is to be destroyed after a minimum period

- All accomplished questionnaire will be destroyed after the completion of the research study.

VII. Statement that involvement in the Research Study is voluntary

- Participants may withdraw from the Research Study at any point.

VIII. Any other relevant information

- All participants must be internal auditors or members of management.

If participants have concerns about this study and wish to contact an independent person.

Please contact:

Dr Garrett Ryan,

Griffith College Research Ethics Committee

South Circular Road, Dublin 8, Ireland

Mail: garrett.ryan@griffith.ie

Tel: +353 1 4163324

