

CONVERGENCE TOWARDS INTERNAL AUDIT EFFECTIVENESS IN THE BRICS COUNTRIES

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Abstract

Internal auditing has been called upon to enhance its value proposition for organisations and one way of doing this is to demonstrate its effectiveness. By using the responses of participants from the BRICS countries on the 2010 global Common Body of Knowledge survey of the Institute of Internal Auditors in conjunction with the elements of the Internal Audit Capability Model this study examines the convergence towards internal audit effectiveness by the BRICS countries. The study uses a neo-institutional perspective to demonstrate how internal auditing in the BRICS countries has responded to coercive, normative and mimetic pressures to demonstrate effectiveness. The study shows that coercive pressures for internal auditing exist in all the BRICS countries, but owing to the voluntary internal audit structure in Russia, such pressure appears to be lower in that country. Using professionalism to demonstrate normative pressures, the emphasis on internal audit in the King III report of South Africa was evident. The results of this study seem to indicate that South Africa has responded more to mimetic pressures in relation to people management, professional practices and organisational relationships than other BRICS countries.

Keywords

Internal audit effectiveness, BRICS, coercive pressures, normative pressures, mimetic pressures, Internal Audit Capability Model, Common Body of Knowledge (CBOK)

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1. INTRODUCTION

Internal auditing (IA) has been called upon to enhance its value proposition for organisations. One way of doing this is to demonstrate IA effectiveness (Lenz & Hahn, 2015). An effective internal audit function (IAF) as a corporate governance monitoring mechanism could be especially useful in developing countries as the literature shows the importance of corporate governance at firm level for these countries to access financing, lower the cost of capital and improve operational firm performance (Claessens & Yurtoglu, 2013; 2012; Peters, Miller & Kusyk, 2011).

Previous studies have considered IA effectiveness in some developing countries. These include Ethiopia (Mihret & Woldeyohannis, 2008; Mihret & Yismaw, 2007); Israel (Cohen & Sayag, 2010); Libya (Abu-Azza, 2012), Malaysia (Fadzil, Haron & Jantan, 2005); Saudi Arabia (AlTawjry, Brierley & Gwilliam, 2003); and Singapore (Yee, Sujan, James & Leung, 2008). Despite this, researchers have called for further research to determine how IA practices in developing countries have progressed along the lines of convergence and maturity (Salvioni, Bosetti & Almici, 2013; Sarens & Abdolmohammadi, 2011). IA effectiveness in the so-called "BRICS" countries (Brazil, Russia, India, China and South Africa) has not been studied.

This study attempts to fill the gap by examining the convergence towards IA effectiveness by the BRICS countries. The framework to assess convergence is drawn on neo-institutional theory. Owing to the unavailability on publicly disclosed data on IA (Al-Najjar, 2011), the complexities of analysing the linkage between corporate governance measures and the degree of IA effectiveness (Regoliosi & d'Erì, 2014) and doubt expressed over the possibility of generalising the relationship between IA and corporate governance measures (Carcello, Hermanson & Raghunandan, 2005), this study departs from previous research by attempting to "abandon old trails and try new ways", as suggested by Lenz and Hahn (2015). It uses the responses of participants from the BRICS countries on the 2010 global Common Body of Knowledge (CBOK) survey of the Institute of Internal Auditors (IIA) (IIARF, 2010) in conjunction with the elements of the Internal Audit Capability Model (IA-CM). The IA-CM is a well-recognised maturity model in the field of IA and is based on the Carnegie Mellon University's Software Engineering Institute's Capability Maturity Model (IIARF, 2009).

By examining convergence towards IA effectiveness in the BRICS countries, this study contributes to the theory on IA effectiveness in developing countries by providing a platform for future research and valuable insights for several parties. At a practical level, the findings reflected in this article could be valuable as guidance to firms, internal auditors and IA governing bodies in the respective BRICS countries to inform their agenda for convergence on IA effectiveness. The authorities in these countries could use such insights to improve pressures (regulations and enforcement measures) relating to IA towards international best practice in order to benefit from potential economic spin-offs.

The remainder of this article is organised as follows: institutional theory is discussed as the theoretical underpinning for the study; the need for and measurement of IA effectiveness is reviewed; the research method is explained and the dataset introduced and aligned to the elements of the IA-CM; and the results of the analysis are presented and discussed, a conclusion reached and areas for future research identified.

2. THEORETICAL UNDERPINNING

This paper draws on institutional theory, in particular neo-institutional theory. The theory explains the “similarity (isomorphism) and stability of organisational arrangements within a given population or field of organisations” (Greenwood & Hinings, 1996), and posits that pressures for conformity within a field result in sets of homogenous organisational forms (Lawrence, 1999). Neo-institutional theory is used to understand how organisations are influenced by institutionalised rules and environments (Heugens & Lander, 2007). In this context, various organisations or industries, bound together by institutionalised rules and standards, are considered as members of an organisational field (Lawrence, 1999). Their interrelationship exhibits forms of dependency which lead to some organisations being influenced by others (Mihret, James & Mula, 2010). By using a neo-institutional lens, one gains an understanding of how processes of homogenisation and institutionalisation actually occur (Greenwood & Meyer, 2008).

In their seminal work, DiMaggio and Powell (1983) focused scholarly attention on the convergence of organisational practices and symbolic structures across organisational fields (Lounsbury, 2008). DiMaggio and Powell (1983) identified three mechanisms through which convergence occurs as organisations seek to become isomorphic with their contexts, namely *coercive*, *normative* and *mimetic* mechanisms. *Coercive* isomorphism results from pressures (both formal and informal) exerted on organisations by other organisations on which they are dependent and from cultural expectations within society (Greenwood & Meyer, 2008; DiMaggio & Powell, 1983); including government mandates, the legal environment and legitimated rules and structures that occur outside the governmental arena. *Normative* isomorphism results from professionalisation projects (Greenwood & Meyer, 2008). Formal education and the growth as well as elaboration of professional networks (professional association) can be regarded as sources of such isomorphism (Heugens & Lander, 2007; DiMaggio & Powell, 1983). *Mimetic* mechanisms occur when organisations respond to uncertainty and copy successful role models (Greenwood & Meyer, 2008; DiMaggio & Powell, 1983).

There is some evidence of neo-institutional theory being applied in IA research (Endaya & Hanefah, 2013; Abu-Azza, 2012; Mihret et al., 2010; Arena, Arnaboldi & Azzone, 2006; Al-Twaijry et al., 2003). Mihret et al. (2010) argue that the theory is appropriate for IA research because it explains organisational phenomena without limiting the scope to profit-seeking organisations as in other theories (e.g. shareholder and stakeholder). It also makes neo-institutional theory relevant to IA research in countries where market systems and economies have reached different stages of development, thus making it applicable to both developed and developing countries (Mihret et al., 2010; Arena et al., 2006; Al-Twaijry et al., 2003).

3. LITERATURE REVIEW

Previous studies on IA in the developed world show that it has been firmly entrenched as a contemporary corporate governance mechanism (Eulerich, Theis, Velte & Stiglbauer, 2013; Soh & Martinov-Bennie, 2011; Holt & De Zoort, 2009; Sarens & De Beelde, 2006; Carcello et al., 2005; Gramling, Maletta, Schneider & Church, 2004). However, this is not always the case in developing countries because corporate governance mechanisms, including IA, are mostly still in a process of developing (Li, Park & Bao, 2014; Al-Matari, Al-Swidi & Fadzil, 2014; Sarens & Abdolmohammadi, 2011).

IA can only become a trusted corporate governance mechanism if it is deemed effective (Mihret et al., 2010). Lenz (2013) regards IA effectiveness as a “concept that helps the organisation to achieve its objectives by positively influencing the quality of corporate governance”. IA effectiveness has become a recurring theme in IA studies in developing countries, and although variation is evident, there is general consensus about the measures used for IA effectiveness; including internal auditor competence, the quality and scope of their work, the organisational setting within which they function, the status and structure of IA, their services and role, relationship with other parties, professional proficiency and the level of management support received (Badara & Saidin, 2013; Endaya & Hanefah, 2013; Abu-Azza, 2012; Mihret et al., 2010; Mihret & Woldeyohannis, 2008, Yee et al., 2008; Mihret & Yismaw, 2007; Fadzil et al., 2005; Al-Twajjry et al., 2003).

In one of the latest studies, Lenz and Hahn (2015) performed a synthesis of empirical IA effectiveness literature and suggested that IA effectiveness should be viewed as a multifaceted concept which distinguishes between macro and micro dimensions. They identified micro dimensions as the organisation, IA resources, IA processes and IA relationships. By adopting a neo-institutional theory perspective, they suggested that macro dimensions are coercive, normative and mimetic forces; coercive forces involve compliance with laws and other binding regulations; normative forces show their impact through the degree of conformance with the International Professional Practices Framework (IPPF) as provided by the IIA (2013), the global standard setting body of the IA profession, because the stronger the normative force of the IIA, “the more effective the IAF may demonstrate itself to be by conforming to the IIA’s good practice principles”; and mimetic forces refer to organisations measuring themselves against similar successful organisations – also referred to as benchmarking.

Other studies supporting institutional theory and its application in IA effectiveness include the following: the role of government (Mihret et al., 2010; Scott, 1987; DiMaggio & Powell, 1983) and regulations (Arena et al., 2006) as coercive pressures; the establishment of IAFs in organisations as a result of coercive pressures (Al-Twajjry et al., 2003); mimetic pressures contributing towards the development of IA (Mihret et al., 2010); and professionalism, as a normative pressure, which may influence at different levels of the advancement of IA across organisations (Yee et al., 2008; Al-Twajjry et al., 2003).

Sarens and Abdolmohammadi (2011) used 2006 data and reported a high degree of convergence of IA practices in developing countries, including the BRICS countries, towards United States (US) best practices. The IA-CM developed by the Institute of Internal Auditors Research Foundation (IIARF) can be regarded as a benchmark of best practices (IIARF, 2009). It is a framework that identifies the fundamentals needed for effective IA in the broad public sector. The IA-CM links elements of IA effectiveness to levels that reflect an IAF’s maturity at a point in time (Ziegenfuss, 2010). Even though the model was initially developed from a “broad public sector” perspective, IA in both the private and public sectors is markedly similar (Van Gansberghe, 2005; Goodwin, 2004), which allows for the application of the model in the private sector. Based on the above, the elements of the IA-CM model (services and role of the IAF, people management; professional practices performance management and accountability; organisational relationships and culture; governance structures) are considered as indicators of mimetic pressures.

4. RESEARCH METHOD

This study used the data generated by the 2010 CBOK study conducted on behalf of the IIAF (2010). The CBOK study generated a database of 13 582 evaluable questionnaires from 107 countries, and for purpose of this study, the CBOK responses received from the five BRICS countries were used. It consisted of a total of 1 207 responses; 277 from Brazil, 302 from Russia, 185 from India, 149 from China and 294 from South Africa. By analysing the questions (also sub-questions) included in the questionnaire used in the CBOK study, those applicable to government mandates, the legal environment and legitimated rules were used as indicators of coercive pressures, questions relating to professionalisation were used as indicators of normative pressures, and drivers of IA best practices were used to set a role model or benchmark for IA effectiveness.

The IA-CM consists of six elements which relate to the aforementioned measures identified in the literature for IA effectiveness. The IA-CM identifies five levels of capability which provide “a road map for continuous improvement” in the IAF (IIAF, 2009). Level 1 is the initial level where IA functions on an *ad hoc*, unstructured basis; level 2 requires an IAF to have a repeatable capability; at level 3, IA policies, processes and procedures are defined, documented and integrated into one another and the organisation’s infrastructure; at level 4, the IA and key stakeholders’ expectations are aligned; and at level 5 IA is “a learning organization with continuous process improvements and innovation”.

The IA-CM was used for the identification, analysis and measurement of data from the CBOK study. The 2010 CBOK study questionnaire contained 48 questions which required different types of responses; some required selecting a specific *alternative*, others listed *options* for consideration and others again used an interval scale to rate *statements*. In the application of responses from the CBOK-study, all questions/sub-questions with their various types of responses (alternatives, options or statements) were considered for applicability (see Annexure A for a summary of the questions/sub-questions [only referred to as questions] per element and per capability level used in the study). The following structured process was used:

- *Step 1:* Based on the literature, alternatives, options and statements in questions/sub-questions were interpreted to determine any relationship with IA effectiveness (by considering the key processes of internal audit capability in the IA-CM);
- *Step 2:* If they were interpreted as relating to IA effectiveness, the alternatives, options or statements in questions were categorised according to the six elements of the IA-CM;
- *Step 3:* The capability level addressed in the alternatives, options or statements in questions were then considered and decided on; and
- *Step 4:* Responses to the alternatives, options or statements in questions were analysed in accordance with the allocated element (see Step 2) and capability level (see Step 3).

The researchers debated on the alternatives, options or statements for each question/sub-question to reach consensus on the interpretation (Step 1), the categorisation (Step 2) and the level determination (Step 3). As a final check, each researcher was allocated two specific elements of the IA-CM, and independently considered the allocation of the questions/sub-questions for allocation purposes by reviewing the data analysis for these questions and/or sub-questions for correctness. Minor differences of opinion on allocations were discussed until consensus was reached among all the researchers. Step 4 required analyses of the responses of the 2010 CBOK study, involving a scoring process. A score was determined by considering the following variables:

- the number of respondents who selected the alternative, option or statement in the question/sub-question;
- the total number of respondents (n) from a BRICS country participating in the 2010 CBOK study. All or some categories of respondents (heads of IAFs or chief audit executives [CAEs], service provider partners, internal audit practitioners and academics) were requested to answer specific question in the 2010 CBOK study. This was taken into account in the calculation of the number of respondents in this study;
- a weighting factor, included to distinguish between the five capability levels of the IA-CM; a weight of 1 for level 1, of 2 for level 2, and so on; and
- the scores of all selected questions/sub-questions relating to each IA-CM element at different capability levels were then determined and expressed as a percentage.

The study had some limitations. It is based on the CBOK data that only includes the views of internal auditors and not the views of their stakeholders, which would probably provide another dimension. As the questionnaire used in the CBOK study was initially developed to provide a comprehensive snapshot of the IA profession globally to inform the way forward (Allegrini, D'Onza, Melville, Sarens & Selim, 2011), the instrument is not aligned to all the key processes of each element and capability level of the IA-CM. It is therefore not possible to provide a comprehensive picture of IA for each element at all capability levels in the BRICS countries. However, both the research process and integrity of data from the CBOK studies are well respected by scholars. This is demonstrated by various studies using CBOK data, for example, that of Stewart and Subramaniam (2010). Finally, owing to the low response rate of the CBOK study, it was difficult to relate the findings to the BRICS countries as a whole.

5. FINDINGS AND DISCUSSION

The findings (together with corresponding discussions) are presented in accordance with the three pressures (coercive, normative and mimetic) along which convergence occurs as organisations seek to become isomorphic with their contexts.

5.1 Coercive pressures

Previous research has used IA regulation to demonstrate coercive pressures. Two questions were used from the 2010 CBOK study to demonstrate coercive pressures (see Appendix A for all the areas included). Firstly, respondents were asked to indicate whether IA was required by law and regulation in their country. Secondly, respondents were requested to indicate the reasons for not using the IIA *Standards* as a whole or partially, two of which related to rules and regulations; the IIA *Standards* were superseded by local/government regulations, and compliance is not expected in the country. The results presented in TABLE 1 reflect the percentage of respondents who did not mark the two reasons.

Using IA regulations to demonstrate coercive pressures, it appears that such pressures exist in all the BRICS countries. Since only 31.72% respondents from Russia believed that IA is mandated by the country's laws/regulations, such coercive pressure appears to be at a lower level than for the other BRICS countries. This finding agrees with the fact that Russian laws prescribe a voluntary IA structure (Iwasaki, 2011).

TABLE 1: Coercive pressures

Indicator	% of respondents who agree with the indicator				
	Brazil	Russia	India	China	South Africa
IA is required by law or regulation	66.14	31.72	74.10	78.57	75.00
Compliance of IIA <i>Standards</i>	93.10	76.24	91.11	72.73	100
IIA <i>Standards</i> are not superseded by governmental regulations	75.86	89.11	84.44	100	94.52

Source: Authors' analysis

It can further be deduced that compliance with IIA *Standards* in Brazil, India and South Africa enjoys high prominence and they, not local standards, can be regarded coercive pressures. A high percentage of respondents in all the BRICS countries indicated that the IIA *Standards* are not superseded by their government regulations.

5.2 Normative pressures

Indicators, demonstrating professionalisation, which were used for normative pressures in this study, are presented in TABLE 2; based on six questions (see Appendix A) in the CBOK study. Using professionalism to demonstrate normative pressures, it appears that based on tertiary education, professional certification and CPD indicators, such pressures are weaker in Russia than in the other BRICS countries. These findings agree with the findings of the PWC survey (2013), namely that IA in Russia is undermined by severe shortages of staff with the requisite skills and low levels of professional qualification. A further concern is the low professional certification levels of Brazil, Russia, India and South Africa with regard to the global certification of the profession, namely the certified internal auditor (CIA) designation. In addition, the extremely low certification in the technology field/information systems, auditor designation for all the countries is an area for concern. Internal auditors are process and control specialists and the modern business environment cannot function without information technology.

Respondents were asked to indicate their organisation's compliance with the IIA *Standards* (only full and partial compliance were considered), as well as full and partial compliance of each of the 11 formal IIA sub-standards. The results indicate stronger normative pressure for the use and compliance of IIA *Standards* in South Africa than in the other BRICS countries, with relatively low compliance in Brazil. To support the compliance with the IIA *Standards*, information was gathered on whether the IIA *Standards* add value to the governance processes as well as compliance with the IIA Code of Ethics, and whether the IIA Code of Ethics is complied with.

The results in TABLE 2 support the strongest normative pressure for the value adding of the IIA *Standards* and Code of Ethics to governance as well as the use of the Code of Ethics in South Africa; with China obtaining low scores in meeting the requirements of the Code. This could be ascribed to the King Code of Governance for South Africa (King III), which recommends that the IAF should adhere to the IIA *Standards* and Code of Ethics. This is not only compulsory for South African listed companies, but also applies to all entities, regardless of the manner and form of incorporation or establishment and whether these entities are in the public, private or non-profit sectors (IoDSA, 2009).

TABLE 2: Normative pressures

<i>Indicator</i>	<i>% of respondents who agree with the indicator</i>				
	<i>Brazil</i>	<i>Russia</i>	<i>India</i>	<i>China</i>	<i>South Africa</i>
Membership of the IIA	99.64	100	100	99.33	100
Tertiary education	98.92	39.74	100	100	97.28
Professional certifications					
- Certified internal auditor (CIA)	16.97	13.25	34.59	79.19	43.54
- Other IA professional qualification	0	0.99	0	2.01	1.36
- Public accounting or chartered accountancy (CA/CPA/ACCA)	4.33	12.25	43.78	18.79	9.18
- Technology/security	2.89	4.97	23.78	0	6.12
- Information systems auditor	5.34	6.56	20.86	20.00	12.52
CPD	68.13	55.60	71.69	84.82	76.84
Use of IIA <i>Standards</i>					
- All IIA <i>Standards</i> are used	20.69	38.61	22.22	36.36	71.23
- Partial use of IIA <i>Standards</i>	31.03	43.56	55.56	45.45	21.92
- Total	51.72	82.17	77.87	81.81	93.15
Eleven formal IIA <i>Standards</i>					
- Full compliance	25.71	34.47	37.58	30.58	67.50
- Partial compliance	10.34	35.55	8.48	37.19	21.42
- Total	36.05	70.02	46.06	67.77	88.92
IIA <i>Standards</i> to add value to the governance process	78.95	70.41	51.61	63.64	95.08
Compliance with IIA Code of Ethics:					
- Adds value to the governance process	73.68	75.51	67.74	72.72	96.72
- Meets/exceeds requirements	78.95	70.41	64.52	36.36	80.33

Source: Authors' analysis

In his article, aimed at highlighting the complications arising from viewing the IIA Code of Ethics in a global context, Ramamoorti (n.d.), Co-Chair of the 2010 CBOK study and a member of the IIA's Global Ethics Committee, maintains that language, culture and local laws and regulations can significantly impact on how the ethical behaviour of internal audit professionals is analysed and understood.

A possible explanation for the lower normative pressure reported by Chinese respondents in this regard could be due to *Guanxi* being a part of the fabric of Chinese society (Cooper, Leung & Wong 2006; Estrin & Precezer, 2011) - a system in which personal relationships are central (Vanhonacker, 2004).

5.3 Mimetic pressures

Mimetic pressures refer to how IA compares with best practices, in this case, applying the country-specific 2010 CBOK data to the IA-CM model. As explained in the methodology section, a scoring formula was used in this study to distinguish the capability levels of the IA-CM for each of the six elements (see Annexure A for the areas covered in the study per capability level and element).

5.3.1 Element 1: Services and role of the IAF

The roles and services of IAF have been used as attributes for IA effectiveness (Al-Twajry et al., 2003; Arena & Azzone, 2009; Goodwin, 2004). No specific questions in the 2010 CBOK study were assessed as reflecting IAF services and roles at level 1 and for level 2, the IA-CM suggests that IAFs perform mostly compliance audits (IIARF, 2009:58). Fifteen (15) questions with a possible score of 30 (15x2) were analysed. For level 3, the IA-CM stipulates that an IAF should conduct both performance audit engagements as well as advisory services (IIARF, 2009:59); six(6) questions were used, with a possible score of 18 (6x3). For level 4, focusing on the comprehensive coverage of assurance on governance; risk management and control, twelve (12) questions with a possible score of 48 (12x4) were used. At level 5, the IA-CM states that the IAF will be recognised as a key agent of change (IIARF, 2009:62); seven questions with a possible score of 35 (7x5) were used. After applying the above-mentioned scoring formula to the relevant questions/sub-questions, the results are presented in TABLE 3.

TABLE 3: Element 1 - Services and role

Levels	Possible score	Brazil		Russia		India		China		South Africa	
		Score	%	Score	%	Score	%	Score	%	Score	%
2	30	19.43	64.77	17.88	59.60	20.45	68.17	16.06	53.53	20.96	69.87
3	18	8.24	45.78	6.73	37.39	8.96	49.78	6.35	36.28	8.84	49.11
4	48	27.89	58.10	22.96	47.83	32.75	68.23	27.20	56.67	34.26	71.38
5	35	11.64	32.43	10.46	29.89	15.13	43.23	10.60	30.29	15.23	43.51

Source: Authors' analysis (source = average of all respondents; % = average score/possible score × 100)

From the results in TABLE 3 it appears that Brazil and Russia in relation to the country itself, responded more to pressures in lower capability levels (64.77% and 59.6% (for level 2)) than in higher levels, whereas the other countries also responded positively to higher levels (India = 68.34% for level 4; China = 56.67% for level 4 and South Africa = 71.38% for level 4). Overall, Russia's and China's responses to mimetic pressure were lower than the other countries. A follow-up in-depth qualitative analysis of the 2010 CBOK study was conducted by the IIARF (2014), casting light on the lower levels of response by Russia and China to these mimetic pressures; for example, a Russian participant alluded to the fact that "internal auditors may act as inspectors" (IIARF, 2014:93), and such an approach does not relate to the IAF's evaluation of governance, risk

management or control processes or by providing advisory services and the execution of high-level assurance engagements. The PwC report (2013) referred to areas of frequent disagreement between the Soviet tradition of “Revisia” and internal audit best practice – for example, the fact that it is not the role of IA to provide assurance and consultancy. A Chinese participant in the IIAF study (2014:94) explained that before 2011, there was no “local” framework that could be used by IA during the evaluation of the internal control system, as for state-owned companies, IA was only required to focus on the assessment of single operations rather than on the overall view of the company’s control activities. The latter notion points towards IA’s limited involvement in advisory services and as a change agent.

5.3.2 Element 2: People management

Competence has been identified in the literature as a measure of IA effectiveness (Endaya & Hanefah, 2013; Badara & Saidin, 2013; Soh & Martinov-Bennie, 2011; Arena & Azzone, 2009; Mihret & Yismah, 2007). For level 1, which indicates that the services of the IAF are limited to the skills of the internal audit staff (IIARF, 2009:35), four questions with a possible score of 4 (4x1) were used. Level 2 focuses on the identification and recruitment of skilled people and individual professional development (IIARF, 2009:63-64); thirty-two (32) questions with a possible score of 64 (32x2) were used. Level 3 addresses workforce coordination, professionally qualified staff, team building and competencies (IIARF, 2009:65-67); thirty-four (34) questions with a possible score of 102 - 34x3 were included. For level 4, including workforce planning, IAF support for professional bodies and contributions to management development (IIARF, 2009:68-70), only five questions were used from the 2010 CBOK study, totalling a possible score of 20 (5x4). Lastly, at level 5, which focuses on workforce projection and IAF leadership’s involvement with professional bodies (IIARF, 2009:71-72), one question, addressing the existence of a long-term audit plan, was used (possible score of 5 - 1x5). After applying the above-mentioned scoring formula to the relevant questions/sub-questions the results are presented in TABLE 4.

TABLE 4: Element 2 - People management

Levels	Possible score	Brazil		Russia		India		China		South Africa	
1	4	0.71	17.75	1.16	29.00	1.38	34.50	1.18	29.50	0.91	22.75
2	60	46.12	76.87	41.33	68.88	44.60	74.33	40.96	68.27	45.41	75.68
3	84	32.13	25.15	25.86	32.33	26.15	32.69	25.95	30.89	33.30	39.64
4	20	7.50	37.50	6.03	30.15	6.36	31.80	7.13	35.65	8.13	40.65
5	5	2.06	41.20	1.05	21.00	2.01	40.20	2.07	41.40	3.20	64.00

Source: Authors’ analysis

From the results in TABLE 4, it appears as if all BRICS countries have responded to mimetic pressures in relation to people management of IAFs to demonstrate IA effectiveness, with the highest score for each country at level 2 (referring to respondents’ academic qualifications and their perceptions of the importance of various technical skills, competencies and knowledge areas for work performance). Much lower levels of response are indicated for levels 3, 4 and 5. In all instances, South Africa appeared to respond to a higher degree than the other BRICS countries. The emphasis on people management in the South African context was highlighted by a participant in the recent IIAF study on the 2010 CBOK results (IIARF, 2014:58), where he/she

maintained that it was merited because of regulatory requirements with regard to the King III code where “more is expected from the IAF in terms of audit coverage and assurance provided”.

5.3.3 Element 3: Professional practices

Professional proficiency (including independence and objectivity) and the scope and quality of work are measures for IA effectiveness (Badara & Saidin, 2013; Cohen & Sayag, 2010; Mihret et al., 2010; Mihret & Yismah, 2007; Al-Twajjry et al., 2003). For level 1, the IA-CM specifies that no specific professional practices have been established, with the exception of those provided by professional associations (IIARF, 2009:14); fifteen (15) questions with a possible score of 15 (15x1) were used. For level 2, the IA-CM suggests, firstly, that the audit plan should be developed in conjunction with the stakeholders of the IAF (IIARF, 2009:73) and secondly, a professional practices and processes framework should be established to ensure that internal auditors perform their duties proficiently with due professional care, consistent with professional practices (IIARF, 2009:74). Twenty-three (23) questions with a possible score of 46 (23x2) were used. For level 3, the IA-CM stipulates that the internal audit plan should be risk based and a quality management framework should be established to facilitate on-going monitoring, assessment and improvement of the performance of the IAF (IIARF, 2009:75, 76); eighteen (18) questions with a possible score of 54 (18x3) were included. For level 4, the IA-CM indicates that the internal audit plan should be linked to the firm’s risk management strategies and practices (IIARF, 2009:77). Only two relevant questions with a possible score of 8 (2x4) could be identified. No specific questions could be identified in the 2010 CBOK study relating to level 5, which deals with internal audit planning based on the strategic needs of the firm. After applying the above explained scoring formula to the relevant questions/sub-questions, the results are presented in TABLE 5.

TABLE 5: Element 3 - Professional practices

Levels	Possible score	Brazil		Russia		India		China		South Africa	
1	3	1.00	33.33	0.93	31.00	1.45	48.33	0.91	30.33	1.15	38.33
2	16	9.60	60.00	9.74	60.88	10.46	65.38	7.27	45.44	11.98	74.88
3	54	26.83	49.69	21.40	39.63	26.13	48.39	23.03	42.65	31.50	58.33
4	8	6.15	76.88	5.49	68.63	4.83	60.38	5.09	63.63	5.98	74.75

Source: Authors’ analysis

From the results in TABLE 5 it would appear that for professional practices, the BRICS countries have responded well to mimetic pressures at levels 2 and 4. Lower levels of response are indicated at level 3, and South Africa appears to have responded to a higher level than the other BRICS countries, especially India (level 4) and all the other BRICS countries (level 3). The latter relatively higher response of South Africa could again be ascribed to the King III code which requires a company board to ensure that there is an effective risk-based IA (IoDSA, 2009). The lower levels of response by China and Brazil are clear from the 2014 IIARF report. According to one Chinese participant, “... many internal audit departments have just started to adopt a risk-based method” (IIARF, 2014:37). A Brazilian participant explained that risk management is not a well-established concept in Brazil: “So, to explain the cause why the lowest percentage for the use of risk-based methodologies in developing countries, why it is the lowest, I think the reason is that we don’t have a risk-based methodology in place for most companies in Brazil” (IIAFR, 2014:37).

The researchers reported that the latter position “was also confirmed by the results of the interviews carried out in Russia and China” (IIARF, 2014:37). A Chinese participant in the 2014 IIARF study further highlighted the fact that quality assurance and improvement programmes “[are] a new issue” in China and that IIA in China only started promoting it after 2010 (IIARF, 2014:69). In addition, many Russian CAEs appeared to be challenged because a common approach by management to risk identification and management is lacking, and therefore even if IA prepares its own risk assessment, “it does so without the buy-in from management” (PwC, 2013:4).

5.3.4 Element 4: Performance management and accountability

Al-Twaijry et al. (2003) identified the management and accountability of an IAF as measure for IA effectiveness. Aspects of performance management and accountability were not well represented in the 2010 CBOK study (IIARF, 2010). For level 1, which suggests that no performance evaluation and accountability measurement is in place (IIARF, 2009:35), three questions (3x1) were included, which reflect on the absence of such measurements. Level 2 (indicating that the IAF has a business plan and an operational budget [IIARF, 2009:80-81]) was not represented by any questions in the 2010 CBOK study. Level 3 (which indicates that the IAF uses internal management reports, cost information and performance measurements (IIARF, 2009:82-84)) is reflected in 16 questions, totalling a possible score of 48 (16x3). For level 4, integration of qualitative and quantitative performance measurements (IIARF, 2009:85), six questions totalling a possible score of 24 (6x4) were included. Level 5 addresses reporting of the IAF’s effectiveness in the public domain (IIARF, 2009:86); five questions were included totalling a possible score of 25 (5x5). After applying the above-mentioned scoring formula to the relevant questions/sub-questions, the results are presented in TABLE 6.

TABLE 6: Element 4 - Performance management and accountability

Levels	Possible score	Brazil		Russia		India		China		South Africa	
1	3	0.53	17.67	0.63	21.00	0.58	19.33	0.27	9.00	0.30	10.00
3	48	16.42	34.21	13.16	27.42	12.87	26.81	12.82	26.71	16.67	34.73
4	24	7.61	31.71	6.19	25.79	11.78	29.08	7.00	29.17	11.41	47.54
5	25	9.53	38.12	6.66	26.64	8.90	35.60	7.73	30.92	11.15	44.60

Source: Authors’ analysis

From the results in TABLE 6, it would seem that all the BRICS countries have responded to the mimetic pressures in relation to the performance management and accountability of IAFs to demonstrate IA effectiveness at relatively low levels. According to the IIARF (2014:43), the participants in their follow-up study on the 2010 CBOK study emphasised the “futility and sub-optimality of using a single method for evaluating the performance of the IAF”. A possible explanation for the relative low response of the BRICS countries to the performance management and accountability mimetic pressures could be that other measures not provided for in the 2010 CBOK study are used, and this remains an area for future research. One of the Brazilian participants mentioned that “... we have a lot of others [performance management and accountability measures], but when it comes for example to viable compensation, the bonus program, in internal audit we are totally attached to the overall results of the company. I am an

executive; I am not evaluated on how much of the audit plan I deliver in a year” (IIARF, 2014:43). The researchers of the 2014 IIARF study therefore maintain that it is important “not to infer that these methods are generalizable” – for example, Chinese participants alluded to the fact that different companies have different methods to conduct IA performance evaluation (IIARF, 2014:44).

5.3.5 Element 5: Organisational relationships and culture

Various scholars have identified relationships with other parties as a key measure for IA effectiveness (Badara & Saidin, 2013; Soh & Martinov-Bennie, 2011; Mihret et al., 2010; Goodwin, 2004). One question with a possible score of 1 (1x1) was identified in the 2010 CBOK study addressing the first level of organisational relationship, namely the existence of an IAF (IIARF, 2009:14). Three questions at level 2 with a possible score of 6 (3x2) were included, reflecting on an IAF’s internal management measures (IIARF, 2009:87). For level 3, eight questions totalling a possible score of 24 (8X3) were included. This level suggests that the IAF participates in the organisation’s management activities and coordinates with other review groups (IIARF, 2009:88-89). Five questions were included for level 4, with a possible score of 20 (5x4); stipulating that the CAE should advise and influence top management (IIARF, 2009:90). For level 5, which indicates that the IAF has effective and ongoing relationships (IIARF, 2009:91), seven questions with a possible score of 35 (7x5) were included. After applying the above-mentioned scoring formula to the relevant questions/sub-questions, the results are presented in TABLE 7.

TABLE 7: Element 5 - Organisational relationships and culture

Levels	Possible score	Brazil		Russia		India		China		South Africa	
1	1	0.96	96.00	0.99	99.00	0.893	89.30	0.97	97.00	0.95	95.00
2	6	5.36	89.33	4.68	78.00	5.50	91.67	5.15	85.83	5.51	91.83
3	24	15.18	63.25	14.83	61.79	15.52	64.67	13.91	57.96	17.08	71.17
4	20	11.08	55.40	10.25	51.25	10.58	52.90	8.20	41.00	11.16	55.80
5	35	19.27	55.06	13.07	37.34	20.30	58.00	13.37	38.20	25.63	73.23

Source: Authors’ analysis

At first glance it seems that all the BRICS countries responded well to mimetic pressures in relation to organisational relationships and culture. However, these were mostly at the lower capability levels. It is evident that for level 5, focusing on the IAF relationship with the audit committee, South Africa responded to mimetic pressures to a much larger extent than Russia and China in particular. In case of South Africa, the King III code recommends that every public and state-owned company must appoint an audit committee (IoDSA, 2009), while this requirement is also legally mandated for private sector companies and entities in the public sector (RSA 2008; 2003; 1999). In China, audit committees have only recently been introduced for listed companies (IIARF, 2014). Rajagopalan and Zhang (2008) found that even though some companies in China have basic governance structures such as boards of reasonable size, independent directors and independent auditors, few of them implement the whole range of governance mechanisms found more commonly in the developed world. Lin, Xiao and Tang (2008) found that although various groups of stakeholders have accepted the ceremonial roles and responsibilities of audit committees in China to create the impression of good corporate governance, the more concrete

oversight roles and responsibilities for improving internal control, rule compliance, sound corporate financial reporting and auditing processes have not yet materialised. The independence of the audit committee in Russian firms was found to be well below the average level for companies in Western countries, and it was found that Russian firms are generally negative about the appointment of outside experts as audit committee members (Iwasaki, 2013).

5.3.6 Element 6: Governance structures

The organisational setting and status of an IAF is an important measure for IA effectiveness (Soh & Martinov-Bennie, 2011; Karagiorgos, Drogalas & Giovanis, 2011; Mihret et al., 2010; Cohen & Sayag, 2010; Arena & Azzone, 2009; Mihret & Yismah, 2007). No specific questions could be identified in the 2010 CBOK study addressing the first level of this element as it stipulates that no formal IAF exists (IIARF, 2009:14). For level 2, seven questions with a possible score of 14 (7x2) from the 2010 CBOK study were included. Although no questions could be identified in the CBOK 2010 study addressing this element, at level 3 (which focuses on the funding of the IAF), nine questions were included on the area addressing management’s oversight of the IAF. For level 4, the IA-CM indicates that the CAE should report to the top-level authority of the organisation and the oversight of the IAF should be independent (IIARF, 2009:96-97), seven questions with a possible score of 28 (7x4) were included from the 2010 CBOK study. After applying the above-mentioned scoring formula to the relevant questions/sub-questions, the results are presented in TABLE 8.

TABLE 8: Element 6 - Governance structures

Levels	Possible score	Brazil		Russia		India		China		South Africa	
2	8	4.44	55.50	4.35	54.38	5.09	63.63	4.57	57.13	5.60	70.00
3	27	16.69	61.81	16.30	60.37	16.28	60.30	11.45	42.41	17.88	66.22
4	28	13.25	47.32	13.10	46.79	14.16	50.57	9.84	35.14	18.47	65.96

Source: Authors’ analysis

From the results in TABLE 8, South Africa appears to have responded extremely positively regarding mimetic pressures, and China to a much lower extent; in relation to governance structures of IAFs to demonstrate IA effectiveness. A Chinese participant in the IIARF study (2014:72) asserted that in some instances, internal auditors in China work in “a poor situation without independent status because they report to the CFO or other line manager; they sometimes do not have a separate audit department or they have a small staff”.

6. CONCLUSION

The aim of this study was to address a gap in the literature by examining the convergence towards IA effectiveness by the BRICS countries. By using a neo-institutional perspective, the data of the 2010 CBOK study in conjunction with the IA-CM was used to examine how IA in the BRICS countries have responded to coercive, normative and mimetic pressures to demonstrate effectiveness. The latter is needed by IA to enhance its value proposition.

The results of the study should be considered against the main limitation, namely the application

of the IC-AM using data generated by the 2010 CBOK study. Although this has resulted in an unconventional research method, the findings of the study are supported by recent research (e.g. PwC, 2013; IIAF, 2014). Using IA regulations to demonstrate coercive pressures, it is clear that such pressures exist in all the BRICS countries, but owing to the voluntary IA structure in Russia, such pressure appears to be lower in that country. Further research is needed on the development of IA in the BRICS countries to show the impact of laws and regulations on practice development.

By using professionalism to demonstrate normative pressures, the emphasis on IA in the King III report of South Africa was evident. Subsequent to the 2010 CBOK study, the corporate laws and governance regulations in the BRICS countries have changed and these could provide interesting material for further studies, for example, to determine their impact on IA effectiveness. Future studies could also consider the influence of culture (e.g. *Guanxi* in China, *Revisia* in Russia) on IA effectiveness.

The results of this study seem to indicate that South Africa has responded more to mimetic pressures in relation to people management, professional practices and organisational relationships than other BRICS countries. This could again be ascribed to the influence of King III in South Africa in which the emphasis is on IA and audit committees as governance mechanisms. An interesting future study could investigate the attributes of audit committees in these countries as well as their interaction with IAFs to determine the impact on IA effectiveness.

Following a risk-based approach for IA appears to be an underdeveloped concept in China, Brazil and Russia. Further research could explore the drivers needed and challenges experienced by IAFs to make it a reality. Finally, the results show that all BRICS countries have responded at relatively low levels to mimetic pressures in relation to performance management and accountability of IA, and this represents an area for possible future research.

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ANNEXURE A: Themes and number of questions included in the study

Element	Level 1	Level 2	Level 3	Level 4	Level 5
Services and role	None	Performs mainly compliance audits: evaluates governance, risk management and control processes, their engagement in audit activities, IAF forms an opinion and provides overall ratings on subject areas, and corrective action is taken after release of audit report	Conducts performance audits and provides advisory services: performs operational and management audits, security assessments, staff training and involvement with IFRS migration and XBRL implementation	Proactive assurance and reporting on governance, risk management and controls: financial risks and controls, strategies linked to performance, provides comprehensive training for personnel, management and directors, and considers linkage between firm strategy and performance	Recognised as a key agent of change: plays advisory role in firms' strategy development, IAF activities were based on an internal audit strategy and executes high-level assurance assessments, for example, business viability, due diligence, project management
People management	Services are limited to the skills of staff: a reduction of audit coverage due to staff vacancies or missing skills, and eliminating IAFs that do not use the IIA (Standards) because of its complexity	Identifies and recruits skilled people and continuous professional development (CPD): staff are IIA members and hold academic qualifications, the firms offer incentives to attract and recruit staff, there are no vacancies or missing skills in the IAFs, and respondents' perceptions of the importance of various technical skills, competencies and knowledge areas for work performance are considered	Workforce coordination, professional qualified staff, team building and competencies: professional qualifications, CAEs' years of experience, meet CPD requirements, incentives to attract staff, use of audit software/staff from other departments/co-sourcing to overcome vacancies/missing skills, conduct staff evaluations, and importance of relationship building/teamwork/project management skills for respondents' work performance	Supportive professional bodies and contribution to management development: internal audit plan exists, the use and facilitation of control and risk self-assessments to minimise the effect of staff vacancies, and the provision of training and development opportunities on governance and controls for the organisation's staff	Workforce projection and IAF leadership's involvement with professional bodies: existence of a long-term audit plan

Element	Level 1	Level 2	Level 3	Level 4	Level 5
Professional practices	No professional practices have been established, with the exception of those provided by professional associations: reflecting whether or not the previous year's audit plan was used, only basic compliance auditing was performed, and there was partial use of and compliance with each of the IIA Standards listed	Audit plans developed in conjunction with stakeholders (understand their priorities and needs, and identify opportunities to improve the organisation's objectives and operations): frequency of updating audit plans, consultation with stakeholders, use of and full compliance with all the IIA Standards and Code of Ethics, and the existence of elements of a professional practices and processes framework	Risk-based internal audit plan, improving the overall risk management and control systems of the organisation and establishing a quality management framework to facilitate ongoing monitoring, assessment and improvement of the IAF's performance: existence of an internal audit strategy, risk-based audit planning, the existence and operation of a quality assurance programme, and the use of risk assessment and quality assessment tools	Internal audit plans linked to firms' risk management strategies and practices: the assurance on the effectiveness of risk management to mitigate key risks threatening the firm	None
Performance management and accountability	No performance evaluation and accountability measurement in place	None	Uses internal management reports, cost information and performance measurements: performance measurement techniques	Integration of qualitative and quantitative performance measurements: management's monitoring of the implementation of recommendations, mission statements and their use of high-level performance measurement techniques	Effectiveness in the public domain: reporting in the financial statements on the IAF and how it relates to internal control, and performance measurements by auditees, management and others
Organisational relationships and culture	Existence of an IAF	Internal management measures: age of the IAF, indicating that a separate IAF existed, and whether the IAF's	Participates in organisation's management activities and coordinates with other review group: contributions to	Advises and influences top management: IAF regarded as credible by management and having sufficient status	Effective and ongoing relationships: not placed under extreme pressure to change or withdraw an audit finding,

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Element	Level 1	Level 2	Level 3	Level 4	Level 5
		budget restricted the function's activities	management, the audit committee, external auditors and the reliance of these parties on the IAF's work and reports	within the firm to play a strategic advisory role and to perform high-level reviews	the interaction between the CAE and the audit committee
Governance structures	None	Governance infrastructure: reporting lines, internal audit charter, mission statement, support for sound internal audit governance from government and management	Management's oversight of the IAF: strengthens the independence of the IAF and objectivity of internal auditors, and any management-related parties evaluating and/or providing advice and feedback to the IAF	Reports to top-level authority of organisation and independent oversight over the IAF: reporting line of the CAE, establishment and governance of the oversight body, and relationship with the IAF	None