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## DEVELOPMENT AND THE CURRENT PROFILE OF INTERNAL AUDITING – THE RESULTS OF THE TWO EMPIRICAL STUDIES IN SLOVENIAN ORGANISATIONS

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**Abstract:** Results of (the first) two empirical studies with the aim to reveal the state-of-the-art and development of internal audit in Slovenia are presented in the article. Internal auditing, one of the cornerstones in modern corporate governance, has a relatively short tradition in this new EU member country. Nevertheless, beside the first and mandatory established internal audit units, which were initiated by the corresponding industry's laws in financial services in the early 90s, there is already evidence of a significant and growing number of non-mandatory, voluntary established internal auditing units in other industries. And a variety of internal audit practices regarding establishment, reporting lines, size and scope of work performed by internal audit units, and professional qualifications of internal auditors characterizes the current profile of internal auditing in Slovenian organisations. It can be concluded that internal auditing in Slovenia is following the trends of practice in developed countries, although, in some cases internal auditors are facing problems, mainly due to their lack of work experience, to (un)professionalism of corporate governing bodies, and to top management's lack of awareness or even misunderstanding of the role of internal auditing in corporate governance.

*Key words:* Internal audit, development, corporate governance, Slovenia, non-mandatory audit.

**Sažetak:** RAZVOJ I STANJE INTERNE REVIZIJE – REZULTATI DVAJU EMPIRIJSKIH ISTRAŽIVANJA U SLOVENSKIM ORGANIZACIJAMA. U ovom članku se prvi put prezentiraju rezultati provedena dva empirijska istraživanja, čiji je bio cilj istražiti i javnosti prezentirati dostignuti stupanj razvoja interne revizije u Sloveniji. Danas se interna revizija percipira kao jedan od temeljnih nositelja modernog korporacijskog upravljanja, iako se relativno kratko primjenjuje u zemljama, koje su nove članice EU. Početak ustrojavanja interne revizije u ovim zemljama se vezuje uz rane 90-te godine, kada su propisi obvezivali institucije financijskog sektora na uvođenje interne revizije, ali su daleko značajniji podaci da je

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inerna revizija prisutna i u velikom broju poslovnih sustava iz drugih djelatnosti u kojima je ustrojena na dobrovoljnoj osnovi. Način ustrojavanja interne revizije u praksi nije jedinstven, već se prepoznaju različiti organizacijski oblici i polazišta utemeljenja kao i način izvješćivanja, te veličina službe i razina obuhvata rezultata. Pored toga, istraživanje provedeno u poslovnim sustavima ukazuje da nema jedinstvenog pristupa u zahtjevima za obrazovnim nivoom i razinom profesionalne osposobljenosti internih revizora u Sloveniji. Može se zaključiti da razvoj interne revizije u Sloveniji prati trendove prisutne u praksi razvijenih zemalja, premda se pojedini interni revizori suočavaju i s velikim brojem praktičnih problema. Naime, ti su problemi u pravilu povezani s (ne)profesionalnim odnosom tijela ili menadžmenta u sustavu korporativnog upravljanja prema internoj reviziji, najčešće zbog nepoznavanja suštine problema ili zbog krivog shvaćanja mjesta i uloge interne revizije u sustavu korporativnog upravljanja.

*Cljučne riječi:* interna revizija, razvoj, korporativno upravljanje, Slovenija, neobavezna revizija.

## INTRODUCTION

Internal audit theory and practice in the developed market economies has evolved remarkably since the 1940s (Rammamoorti, 2003; Warga, 2005; Gupta and Ray, 1992; Ridley and Chambers, 1998), when it passed from the substantive to systems auditing cycle (McNamee and McNamee, 1995), and the number of certified auditors and of internal audit units, with a variety of practices regarding their establishment, size, scope of work, reporting lines, professional qualifications and other characteristics in the spectrum from traditional or baseline to leading edge (Ridley and Chambers, 1998; Deloitte, 2005) is growing (Ridley and Chambers, 1998). According to the chairman of The Institute of Internal Auditors (IIA), the leading international professional association (Warga, 2005), the most significant changes in the direction and focus of internal auditing in the developed countries in the last decades concern: concentrating on financial auditing in the 1970s, professionalism, globalization, continuing education, and certification as key drivers in the 1980s, broadening of the profession's function to business consulting and other ancillary services, and taking a value-added approach in the 1990s, and, in accordance with the recent striving to improve corporate governance practice, refocusing on the quality of internal controls.

Slovenia, being an independent country for not more than fifteen years and a member of the EU since 2005, has a relatively short tradition in internal auditing activities.

So far, there has been no empirical evidence neither on the number of the established (non-mandatory) internal audit units nor about the basic characteristics of service intensity, organization and executors of internal auditing activities in Slovenian organizations.<sup>2</sup> Therefore, the main objective (aim) of our study, which has begun in 2005 due to the initiative of The Slovene institute for Auditing<sup>3</sup> was to acquire insight in the size and scope of internal audit practice and to identify the current profile of internal auditing in Slovenia. Since, the question of the development of internal auditing in different regions of the world and of its state-of-the-art is considered among the interesting research questions in internal auditing (Ramamoorti, 2003: 16-17;

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<sup>2</sup> Only two empirical studies of internal audit in Slovenia have been made so far, one focused on organising internal audit units in insurance enterprises (Škorjanc, 1998), and the other (Jagrič, 2000) investigated management's awareness of the internal audit role in corporate governance.

<sup>3</sup> Some preliminary results of the study were reported on the conference of Slovenian internal auditors in May 2006

Hermanson and Rittenberg, 2003: 66), we believe, that the findings of our study may also contribute to the understanding of the development of the internal audit profession in transition economies and can be used for benchmarking purposes with other new EU members as well. Therefore, our representation of the main empirical study is preceded by a brief review of the institutional framework and professionalisation processes in the field of internal auditing in Slovenia.

### **INSTITUTIONAL FRAMEWORK FOR AND PROFESSIONALISATION PROCESSES OF INTERNAL AUDITING PRACTICE IN SLOVENIA**

There are legal requirements for internal auditing in some types of organisations in Slovenia. Actually, internal audit functions in banking and insurance, which were required by the corresponding industries' laws in 1991 and 1994, had been for some years the only functions performed by internal auditors in Slovenian organizations. According to the public finance act (*Zakon o javnih financah* [Public Finance Act], 1999), internal auditing, either established within the organization or outsourced, has been, since 1999, obligatory also for Slovenian public sector organizations/institutions. Additionally, internal auditing is legally required for a few other specific organisations, such as the airports and the railway. For other Slovenian companies only indirect formal incentives for (non-mandatory) internal audit development exist in corporate legislation. In this regard, the latest Slovenian corporate law (*Zakon o gospodarskih družbah* [Company Act], 2006), following the EU directives, has increased accountability of management and of the governing bodies in the organizations to report on risk management and internal control.

In the same short period of internal auditing practice in Slovenia, and partly even earlier, some elements of professionalism in Slovenian internal auditing were also initialised and established. The first Slovenian textbook on internal auditing was published in 1988 (Turk et al., 1988) by The Slovene Union of Professionals Working in Accounting and Finance, the predecessor of the Slovene Institute for Auditing, established in 1993. The first internal auditing course was taught at Slovenian universities in 1991 (in the postgraduate specialization programme for auditing and business consulting), the graduates from both generations of this programme received the first certificates for internal auditors (CIA), which have been since 1996, upon successful completion of a certification study program at the Slovenian Institute of Auditors (Slovenski inštitut za revizijo, SIR), given to more than 60 internal auditors by the SIR. In internal auditing certification, as well as in other accounting and auditing certifications, Slovenia is not following the steps of some bigger and more developed countries which are not offering their own certification programs for internal auditors, but only providing them the possibility to attend and accomplish programs provided by IIA in their country affiliates. SIR<sup>4</sup> is a member of the European confederation of institutes of internal auditing (ECIIA)<sup>5</sup> and an affiliate of The Institute of Internal Auditors (IIA). Therefore, internal auditors

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<sup>4</sup> Regarding the organizational structure of the SIR internal auditors are organized in the Internal Audit Section of SIR.

<sup>5</sup> SIR is also a member of the following professional organizations: (International Federation of Accountants, IFAC), Federation des Experts Comptables Europeens, (FEE) and International Valuation Standards Committee (IVSC).

certificated by SIR are obliged to perform their work in adherence to the IIA's standards. A section of internal auditors was established within SIR in 1997, and a year later a Code of internal audit principles was adopted. Annual conferences of Slovenian internal auditors have been organized by the committee of this SIR's section since 1998. Although IIA recommend external quality assessments to be conducted at least every 5 years (ECIIA, 2005) the national level, no formal external quality assurance system for internal auditing existed before 2006, when the Professional Council of the SIR made a decision to monitor performance of certified internal auditors according to IIA Standard 1312 - External Assessments.

Thus, it can be seen, that internal auditing in Slovenia formally underwent institutionalisation and professionalisation processes similar to the ones in some of the most developed countries with internal auditing tradition, but comparably in a condensed, shorter time period<sup>6</sup> But, has it been possible in such short period to develop more than a traditional, baseline internal auditing practice? This question led us to the empirical research.

### **EMPIRICAL RESEARCH QUESTIONS**

As far as internal auditing in transition economies with short internal audit tradition is concerned, to our knowledge the state-of-the-art has not been revealed with supportive empirical evidence in international journals. Most of the studies on the country profile of internal audit were made in the developed countries with the longest tradition in this field, i.e. in the UK, the USA, Canada, and Australia (Davies, 2001; Cooper et al., 1994)

Our empirical study of the-state-of-the-art of internal auditing in Slovenia was focused on the following two research questions:

1. Is there already a significant number of non-mandatory required internal audit functions established in Slovenian enterprises and are there any intentions for the growth of voluntary internal audit (and motives for establishing such functions) in the near future?
2. What are the characteristics of the current profile of internal auditing practice in Slovenian organisations with respect to size and formal status (associated with organisational independence), scope, reporting lines, qualification and certification of internal auditors, and performance measurement?

### **DATA COLLECTION, LIMITATIONS, AND TOOLS FOR ANALYSIS**

Data were obtained in the second half of 2005 by two surveys based on mailed questionnaires and one by phone calls.

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<sup>6</sup> This may be connected not only with the possibility to build on international expertise (knowledge), but also with clearly specified aims of the organised Slovenian accounting and auditing society for further and accelerated development of the profession after Slovenia became an independent country. One of the most important results of this independent and unique way (since none of other former Yugoslav republics has followed it) are Slovenian accounting standards, which were first adopted in December 1991, and renewed in the end of 2005, mainly due to the development of International Financial Reporting Standards (IFRS) and their adoption by the EU.

The purpose of the first questionnaire, addressed to top managers, was to obtain data for answering the first research question, i.e. to reveal the existence of already established internal audit units in Slovenian organizations, especially the non-mandatory ones, and the motives and future intentions for their (un)establishment.

Considering, that organizational size is relevant for voluntary establishment of the internal auditing function (Goodwin & Kent, 2004; Anderson et al., 1993; Wallace and Kreutzfeldt, 1991), the first questionnaire was sent to all 428 Slovenian organizations with more than 250 employees in both private and public sector; 344 (80.3%) concerned enterprises from industries with no mandatory requirements for internal audit. From the 100 respondent organizations (23.4% response rate), 27 had an internal audit function. Since the response rate was low, and only 14 organizations with non-mandatory established internal audit functions were identified, it was in our opinion, not possible to make qualified judgements about the number of organizations with non-mandatory internal auditing and about the internal audit profile in Slovenia.

Therefore, all 428 companies addressed in the first survey, were then contacted by phone in order to directly discover the (un)existence of non-mandatory internal audit units, to identify the chief internal auditors in the organisations with established internal audit functions, and to ask them to participate in our study (if they had not already participated). Additionally, we contacted all banks and insurance companies with less than 250 employees, since they were not included in the first survey, but are legally obliged to have internal audit units, regardless of their size. In this way, 21 additional companies with voluntary established internal audit units were revealed, and chief internal auditors in other 69 organisations identified.

However, the data from the 73 respondents of the first survey, without an internal audit function, were used for some basic conclusions about the motives and future intentions for the establishment of internal audit in Slovenian companies.

The second survey questionnaire, aimed at obtaining data to reveal the internal audit unit's profile, was then sent to chief internal auditors in 80 organisations with such units. Included were all organisations with identified voluntary established internal audit units, and all companies with legally required internal audit units. Additionally, from the public institutions only hospitals and other national health institutions were included.<sup>7</sup> We thought this was reasonable, since they are, regarding the complexity of their processes and pressure for effective management, quite similar to the market enterprises. 54 usable responses were received, resulting in a response rate of 67.5%. Response rates according to the type of organisation are depicted in Table 1.

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<sup>7</sup> Governmental and other public sector institutions were not subject of this study.

**Table 1:** Response rates from the organisations with an established internal audit unit regarding the second survey questionnaire

Type of organisation	Number of organisations with an identified IA unit	Number of responding organisations with an IA unit	Response rate
Retailing	6	4	66.7%
Manufacturing and nonfinancial services *	32	25	78.1%
Banks	23	12	52.2%
Insurance companies	14	9	64.3%
National health organisations	5	4	80.0%
TOTAL	80	54	67.5%

\* In this group of companies three concern such with mandatory internal audit. All three responded.

Basic statistics, i.e. percentages, means, frequency tables, breakdowns for different type of organisations, and graphical representation in a scatter diagram were used to analyse the obtained data. Any parametric statistical testing would be unsuitable, since, due to the small number of internal audit units in Slovenia, and according to their different age and industry provenience, it is not possible to assume a normal distribution neither in the whole population of internal audit units nor in our respondent sample.

## RESULTS

Regarding the number of Slovenian organisations with their own internal audit function, the study revealed the following:

- 35 companies with own voluntary established internal audit functions have been detected at the end of 2005. The average number of employees in these companies was 2.135, in none of them lower than 300. Since we observed all companies with more than 250 employees, we believe that the exact number of such companies can not be significantly higher.
- Besides the ones with voluntary established internal audit functions, there were 40 companies with mandatory internal audit units, predominantly (92.5%) from financial services (23 banks, 14 insurance companies and 3 other organisations). Additionally, from the observed national health organisations with more than 250 employees, 5 had their own internal audit, while in the others the function was outsourced.
- Voluntary established internal audit functions in Slovenian companies already concerned 46.7% organisations in the group of the 80 organisations with own internal audit functions detected. Furthermore, companies with their own voluntary established internal audit exist in 10.1% of all companies with more than 250 employees within industries with no legal requirements for internal audit. In the pharmaceutical production, both big companies have their own internal audit function, and a higher portion of internal audit units (15.8%) was found in

retailing, as well. Of all the non-mandatory established units 13 (37.1%) were in listed companies, which represents almost a half of all listed companies on the Slovenian stock exchange. This is quite high compared to 25.5% determined in Australian listed companies at the end of 2000 by Goodwin and Kent (2004: 21)<sup>8</sup> Thus, the number of the voluntary established internal audit functions in Slovenian companies may already be regarded as significant.

- The number of internal audit functions voluntary established within organisations grew very fast, and, with regard to the expressed intentions of the respondents, we can expect a further growth of this number in the future. Namely, according to the responses received in our second survey, from 26 of polled organizations (74.3% response rate) only 3 (11.5%) existed before the end of 2000, and the remaining 23 (88.5%) have been founded in the last five years. With regard to the respondents of our first survey, which comprised companies without their own internal audit function, 12 of those coming from the non-mandatory internal audit industries stated they were seriously planning to establish such functions in the near future, and 18 more were considering such a decision. Still, in our opinion, according to the survey data the potential for increasing the percentage of organisations with voluntary established internal audit functions in Slovenia should not be overstated. Due to the globalisation processes and because of the fact that, in Slovenia, there are actually no really big companies (ignoring the corporate law criteria), Slovenian companies are, and will probably be even more in the future, targets of mergers and acquisitions of bigger firms, which often have an internal audit unit at the level of the parent company, and no such units in the controlled entities. Within the 73 companies without an internal audit function, which replied to our first questionnaire, there were already a few controlled companies of this kind.

With regard to the motives for the establishment of an internal audit function in their company top managers were asked to allocate 100 points between several possibilities. If we compare average points given to each alternative by companies with an already established, with an intended and with only a considered internal audit function, which are depicted in Table 2, the following results can be observed:

- There are much stronger incentives expressed by top managers for future establishing of internal audit as they were in the past. This can be explained with the fact that all mandatory required internal audit functions already had to be either internally organised or outsourced (in the public sector), but may also be connected with growing management's awareness about possible benefits from internal audits.
- On the other hand, evidence of a diminishing role of the governing bodies is something to be concerned about. Is this a consequence of transition/privatisation processes, of often political and not on professional knowledge based appointing of their members, and of their law accountability? The answers to these hypotheses require further research.

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<sup>8</sup> In their study, the financial institutions were included, but since, there were no legal requirements in Australia for internal audit, results can be used for a rough comparison.

**Table 2:** Importance of the motives in organisations regarding internal audit function (IAF) establishment (allocation of 100 points, average)

	IAF established	IAF intended	IAF considered
Mandatory requirements	27.6	6.9	13.3
Requirements from controlling enterprise	11.1	3.1	12.0
Requirements of the supervisory board/other governing body	8.3	1.9	0.7
Perceived need of top management	44.8	68.5	73.3
Other	8.2	19.6	0.7

Furthermore, 24 top managers from companies without their own internal audit unit provided information (by allocating 100 points between several possibilities) about the most important reasons for no intentions to establish such a unit, i.e.:

- The most important statement (average 30.4 points) was the existence of an internal audit function at the level of the group and the least no expected benefit from internal auditing (2.5 points). Other answers (with points between 15 and 30) concerned outsourcing and performing these activities within other organisational units.
- A control question, directed on specifying “internal auditing” in this units, and interviews with CFOs and chief accountants in some of these companies revealed that in most cases the role of internal audit was misunderstood and/or mixed up with either external auditing or even with controllership activities to support management control.

Since there were 29 questions in our second questionnaire directed to revealing the current profile of internal auditors and their practice, it is not possible to cover in detail the results in this article. Thus we present only the main findings about the size, formal status and reporting lines, qualification and certification of internal auditors, scope of their work, and performance measurement.

As far as the size of internal units is concerned the study revealed that:

- Slovenian internal audit units are very small; the biggest is in one of the banks having 12 internal auditors.
- The average number of internal auditors in a bank was 4.3, in an insurance company 2 and in other organisations 1.4. Actually, in 61.1% of the respondent organisations there is only one person employed in this function, and there are two in further 20.4%.
- In 90.7% of polled organisations, there are less than 5 internal auditors in the unit. With regard to the small size of Slovenian companies, this percentage is not so low, since a similar study for about 100 top organisations in Australia and New Zealand (Ernst & Young and IIA, 2004) reports on 80% of such organisations.
- We also measured the relative size of internal audit units with the number of employees per an internal auditor. As expected, the lowest numbers, indicating a higher “density” of internal audit coverage, were due to the complexity of their business processes, revealed in financial services, i.e. 98 in banks and 160 in insurance companies. National health organisations follow with 871, while in manufacturing and non-financial services and in retailing the numbers are much higher, 1.037 and 1.988 respectively.



The answers about formal status in the responding internal units show the following characteristics:

- In 85% of responding organisations internal audit units are autonomous and formally directly subordinated to the top management or the internal auditor is employed as a consultant of the chief executive(s), which may be regarded as a good formal basis for independence and objectivity, while in the remaining 15%, their involvement in the accounting department structure may cause independence problems (Maltcher, 2003).
- On the other hand, annual plans for internal auditing are in 51.8% of organizations not approved by the supervisory board, but only by top management. With such functional reporting, which is despite of the IIA's recommendations (Chambers, 2003), not directed to the supervisory board, and, since also the authority to hire, fire and compensate the chief internal auditor in 96.7% of the responding organisations is in the hands of top management, organisational independence of Slovenian internal auditors is jeopardised, as they may be faced with independence and objectivity problems.

We observed some other features of reporting relationships, upon which objectivity, one of the basic quality characteristics of internal auditing, may be judged (Clark et al, 1980; Messier and Schneider 1988; Goodwin and Yao, 2001). The chief internal auditors were asked to classify their communication with top management and with the supervisory board as either, "intensive partnership", "strictly formal reporting", or "modest administratively bureaucratic". While the relationship with top management was appraised very highly, as "intensive partnership" by 70.3% respondents, the communication and cooperation with the supervisory board was regarded by only 11% at such a high level, whereas 16.7% of the respondents classified this relationship as "modest administratively bureaucratic". This could be to some extent evaluated as another probable sign of (un)professionalism of these governing bodies in some Slovenian organizations.

Data regarding educational level, certification and experience can be used as indicators of internal auditor formal competence (Gramling and Myers, 1997; Messier and Schneider, 1988). In this regard, we found that:

- Formal competence of Slovenian internal auditors in respect to educational level and certification can be regarded as high. Although 7% of them don't hold a university degree, there are 57.4% having or obtaining either a postgraduate degree or a professional certificate. 46.4 % of chief internal auditors are certified internal auditors, 18.5 % are certified public accountants. Only in 3 (5.6%) cases there is nobody in the internal audit function with either a post graduate degree or a professional certificate yet.
- Respectively, awareness of the importance of and a need to achieve more professional knowledge among Slovenian chief internal auditors can be regarded as high, although 11% of the chief internal auditors admit their lack of knowledge and experience in this field of work. Almost all chief internal auditors have an accounting or public accounting background.<sup>9</sup>

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<sup>9</sup> Almost two thirds are women and their average age is 41 years.

Our investigation of the types of activities performed by internal auditors focused, i.e. built on the trends in modern internal auditing (Warga, 2005; Protiviti, 2005; Deloitte, 2005; ECIIA, 2005; Gramling et al., 2004; Goodwin, 2004; IAA, 2003; Ramamoorti, 2003; Spira and Page, 2001; Davies, 2001) on two directions. On the one hand, we were interested in the spread of activities regarding the auditing object, that is in the spectrum from financial audit to operational audit. On the other hand, the variety of activities, regarding the nature of their work, from assurance/compliance to consulting services of internal auditors was observed. The chief internal auditors were asked to allocate 100 points between both types of activities in each of the two groups not only for the present situation but also to express their expectations about this structure of their work in the near future (3 years). Average points given to the less traditional components of these two groups of activities, which are presented in Table 3, show that in internal audit practice in Slovenia, these components already constitute a significant part of internal auditing practice, and in the future this portion is expected to grow. Still, it can be noticed that, as far as consulting is concerned, national health and insurance organisations are lagging behind and are more supervisory oriented. On the other hand, internal auditors in insurance organisations and banks are more engaged in operational audits than those in other organisations. This may be explained with the complexity and diversity of business processes in financial organisations, but, considering the expressed expectations of other organisations, it can be also regarded as their developmental lag in the field of operational audits.

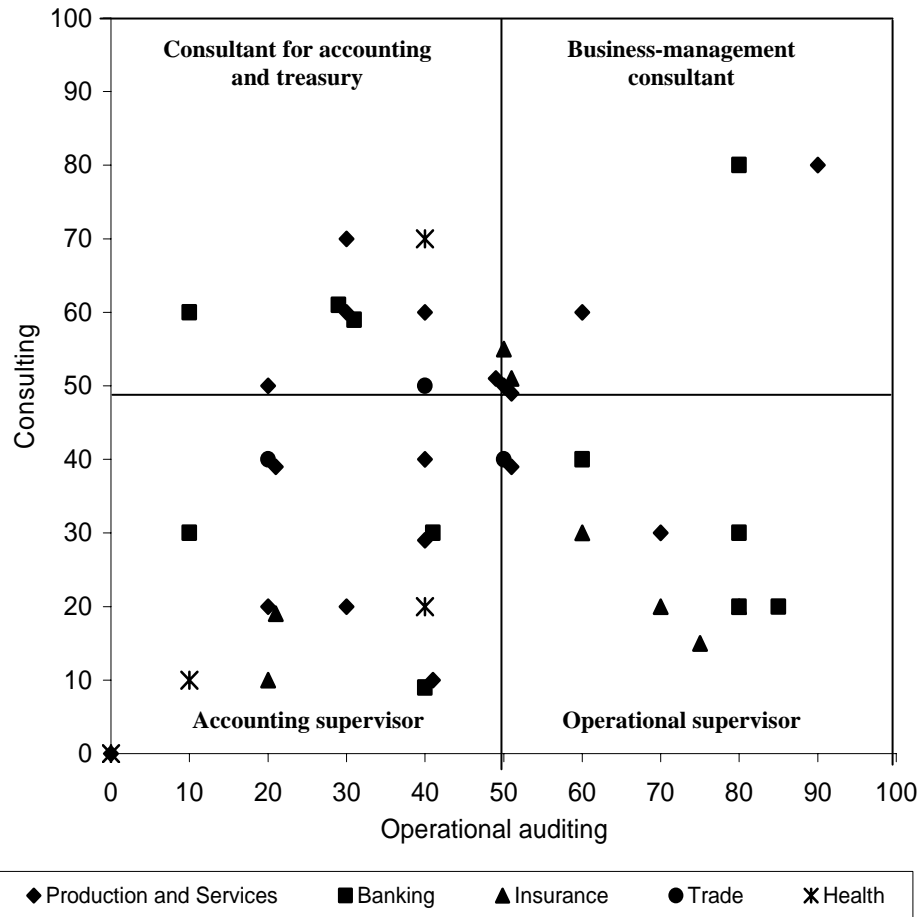
**Table 3:** Chief auditor's perceptions of the present and expected portions of operational audits and consulting (average)

Type of organisation	% of OPERATIONAL AUDITS in total work regarding the auditing object		% of CONSULTING in total work regarding the nature of work	
	present	expected	present	expected
Retailing	36.7%	56.7%	43.3%	63.3%
Manufacturing and nonfinancial services	42.4%	56.8%	42.4%	50.3%
Banks	45.8%	49.2%	38.3%	49.5%
Insurance companies	54.4%	48.1%	31.1%	46.7%
National health organisations	22.2%	38.8%	25.0%	41.3%

But since internal audit functions in organizational practice normally differ due to a variety of factors (Chambers et al., 1987; Deloitte, 2005; Multcher, 2003; Allegrini and D'Onza, 2003), and, due to the small number of internal audit units not only in our sample, but also in Slovenia, it is not surprising that individual respondent's answers about the scope of their work are widely spread.<sup>10</sup> Scatter graphs of the answers concerning perceived present levels and expected future levels of operational audit and consulting activities (Figure 1 and Figure 2 respectively) illustrate this variety.

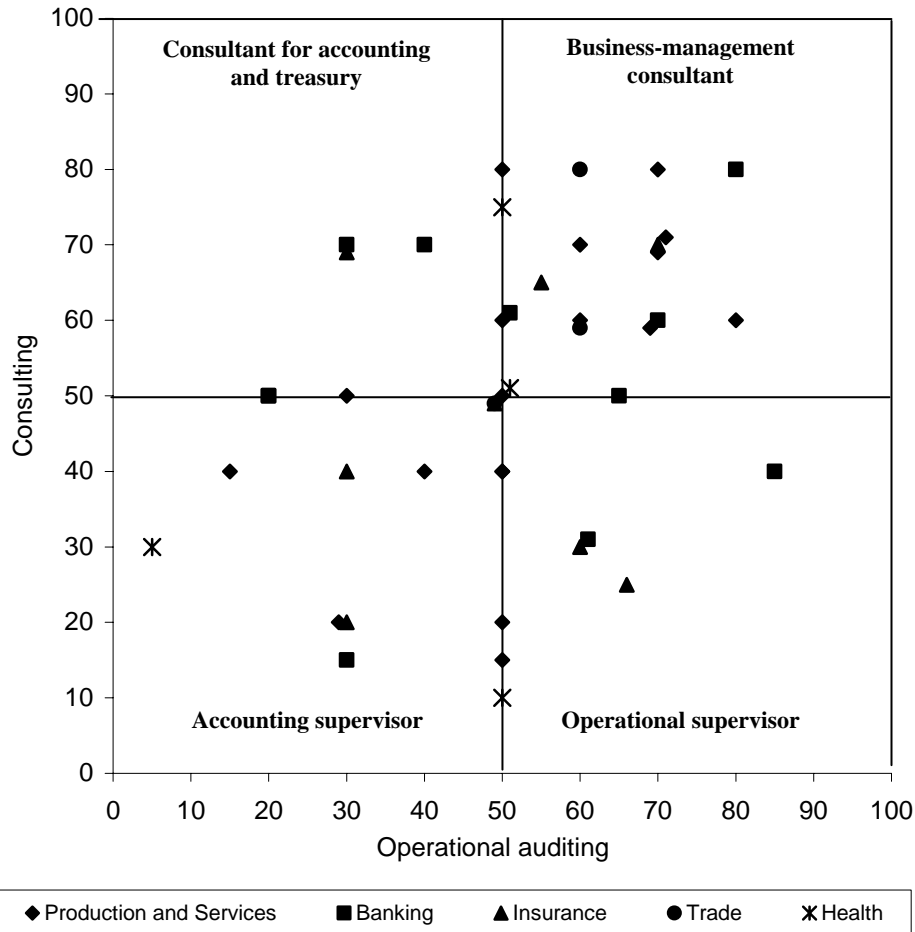
<sup>10</sup> They may also differ due to subjective perceptions of the respondents.

**Figure 1:** The spread of perceived present levels of operational audits and consulting



Still, by splitting the areas in figures 1 and 2 in quadrants, four considerably different practices or directions in Slovenian internal auditing can be observed, which can be roughly compared with some developmental stages of modern internal auditing. The spectrum is spread from the major group of baseline or traditional “accounting supervisors”, to some representatives in the group of “management consultants”. The latter “shift from policemen to facilitators and consultants” (Spira, 2001) may be, to some extent, regarded as signs of leading edge internal auditing practice in Slovenia, although in the developed countries, the importance of the financial statement assurance function of internal auditing is, due to financial scandals and new corporate governance requests, at least temporarily, increasing, and internal auditors are called to “become auditors again” (Milligan, 2003; Serens and DeBeelde, 2006; Deloitte, 2005).

**Figure 2:** The spread of expected future levels of operational audits and consulting



The origins of such diversity in the present and expected Slovenian internal audit practice were not explored in this study. However, we asked the chief internal auditors which factors influenced the most the scope of their work in the last five years. The average (of 100) points allocated to different key influencing factors are presented in Table 4.

As expected, the influence of legislation, an external driving force, was strong in organisations with mandatory required internal audit, the highest in national health organisations, for which this requirements were placed last. On the other hand, the influence of external auditors seems to be rather marginal for the scope of work of internal auditors. In addition, information technology influenced to a high extent the work of internal auditors in banks.<sup>11</sup> From the internal influential factors, professional

<sup>11</sup> In banks, we also found the highest number of Certified information systems auditors.

learning, i.e. new knowledge obtained by the internal auditors, was stated as most important. This importance may also be an indication of professional “freedom” which internal auditors have in developing the content and methods of their work. Further, in banks and non-financial enterprises, which only have representatives in our “business/management consultant” quadrant, congruently, the demands from top managements were expressed to be more influential than in other organisations. Yet again, the influence of the governing bodies was not very high. Actually, in the national health organisations it was extremely low. Is this indicating that the state is not a good owner, considering that it is the only one in these health institutions, and still one of the main owners in Slovenian financial institutions? Or should it be only regarded as another sign of the already hypothesised (un)professionalism of these governing bodies in some Slovenian organizations?<sup>12</sup>

**Table 4:** Importance of key factors influencing the scope of work in internal auditing functions in the last 5 years (allocation of 100 points by chief internal auditors, average)

	Banks	Insurance companies	Non-financial enterprises	National Health organis.
Legislation	36.4	34.0	15.2	65.0
Information technology	18.2	4.5	7.9	2.5
Demands from top management	19.5	8.3	37.8	13.7
Demands from supervisory board/other governing body	3.6	6.7	9.8	1.3
New knowledge obtained by internal auditors	12.3	28.3	20.0	17.5
Demand from external auditors	3.6	6.0	2.4	-
Other	6.4	12.2	6.9	0

Another part of our survey was directed at internal auditing performance measurement practice. More than 50% of organisations stated that they have “their own system of regular/permanent performance measurement”. But, the answers to the open question about the measures used in this system in some cases revealed an (arbitrary) “introverted” and output oriented comprehension of performance.

In our survey, chief internal auditors were also asked to grade (on a scale from 1 to 10) their overall satisfaction with (1) organisational status and (2) with the level to which their finding and recommendations are accepted or/and implemented. Although there seems to be a rather high overall satisfaction with both (7.6 and 7.9 respectively), Slovenian internal auditors do face problems in performing their work. In the last open question of our second questionnaire, 27 (50%) respondents specified such problems. 48 were bothered because the internal audit function was not well understood and their recommendations were not followed, 15% expressed shortage of personnel as a

<sup>12</sup> Since 2006, the state representatives in Slovenian supervisory boards, have to attend a 40 hour basic training/education in performing their governing role.

problem, and 11% of chief internal auditors mentioned the lack of communication with owners (another sign of the low quality of governing bodies), and last but not least, 7% perceived independence problems. Thus, further research in job satisfaction of Slovenian internal auditors may be interesting, as well.

## CONCLUSION

The findings of this study document the current use of internal audit in Slovenian companies and national health organisations, although, due to the small size of the observed population, their presentation was limited to some basic statistics. They can be used as a basis for future longitudinal studies of Slovenian internal audit practice, especially in the growing group of non-mandatory internal audit units, and, may also be interesting for benchmarking purposes with other new EU members. There are many opportunities for further, in depth studies of internal audit practice in Slovenia. For example, it would be interesting to explore factors affecting the voluntary use of internal audit, and factors affecting the choice between full and partial outsourcing of internal audit activities. Furtheron, the role of governing bodies in (in)effective internal auditing, job stress and job satisfaction of internal auditors in Slovenia, could further reveal the state-of-the-art of internal audit in Slovenia. Due to the small size of Slovenian organisations, alternative research methods, especially case studies with interviews, may help to explore and add further insight into these problems.

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