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ΤΜΗΜΑ ΟΙΚΟΝΟΜΙΚΩΝ ΕΠΙΣΤΗΜΩΝ

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ΕΠΙΤΥΧΙΑ ΤΟΥ ΕΣΩΤΕΡΙΚΟΥ ΕΛΕΓΧΟΥ**

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# **“Audit Committee’s Role in Internal Audit’s Success”**

**A dissertation thesis submitted for the degree of**  
**Master in Business Administration (MBA) – Direction in Internal Audit**

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## **ABSTRACT**

The Internal Audit Function (IAF) has been constantly evolving in line with changes in the business environment. In many organizations, a growing audience of stakeholders is expecting more from internal audit. Stakeholders want internal audit to assure, provide insights on risks, advice and anticipate towards the achievement of business objectives. Therefore, IAF needs to build professional rapport and trust within the whole organization. Internal audit's interaction with the Audit Committee (AC) is considered not only one of the cornerstones of good corporate governance, but also an important relationship that could contribute in internal audit's success. The aim of this dissertation thesis is to examine the role and the influence of the AC on the internal audit operations in the terms of achieving the roles and tasks of modern internal auditing in the system of corporate governance. The collection of the data was carried out through a questionnaire addressed to internal auditors and AC members. The findings of this survey, guide us in drawing some conclusions regarding whether and how the AC can contribute to the IAF's Success.

## **KEY WORDS**

Audit Committee, Internal Audit, Corporate Governance

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## CONTENTS

<b>ABSTRACT .....</b>	<b>5</b>
<b>KEY WORDS .....</b>	<b>5</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>6</b>
<b>CONTENTS .....</b>	<b>7</b>
<b>TABLE OF EXHIBITS .....</b>	<b>8</b>
<b>INTRODUCTION .....</b>	<b>9</b>
<b>THEORETICAL FOUNDATIONS .....</b>	<b>10</b>
<i>Audit Committee's Role.....</i>	<i>12</i>
<i>Internal Audit's Role .....</i>	<i>13</i>
<i>Relation between Audit Committee and Internal Audit.....</i>	<i>14</i>
<i>How Audit Committee can contribute to Internal Audit's success.....</i>	<i>15</i>
<b>EMPIRICAL ANALYSIS .....</b>	<b>23</b>
<i>Research Methodology Approach .....</i>	<i>23</i>
<i>Sample analysis .....</i>	<i>24</i>
<i>Methodology of data processing .....</i>	<i>25</i>
<i>Analysis of results.....</i>	<i>26</i>
<b>CONCLUSIONS &amp; POLICY PROPOSALS .....</b>	<b>50</b>
<b>BIBLIOGRAPHY .....</b>	<b>52</b>
<b>APPENDIX .....</b>	<b>54</b>
<b>AUTHOR DECLARATION .....</b>	<b>59</b>

## TABLE OF EXHIBITS

Exhibit 1.....	15
Exhibit 2.....	24
Exhibit 3.....	24
Exhibit 4.....	25
Exhibit 5.....	25
Exhibit 6.....	27
Exhibit 7.....	28
Exhibit 8.....	30
Exhibit 9.....	31
Exhibit 10.....	32
Exhibit 11.....	33
Exhibit 12.....	35
Exhibit 13.....	36
Exhibit 14.....	37
Exhibit 15.....	39
Exhibit 16.....	39
Exhibit 17.....	41
Exhibit 18.....	42
Exhibit 19.....	43
Exhibit 20.....	44
Exhibit 21.....	46
Exhibit 22.....	47



## INTRODUCTION

Throughout the years, both Audit Committees (ACs) and Internal Audit Functions (IAFs) are constantly facing a wider range of business risks and increased expectations from stakeholders. In various industries, the regulators around the globe have enhanced the responsibilities of the ACs. In order to address their increased duties, ACs are turning to a particular resource - the IAF, since it can be viewed as an objective and independent assurance provider. The IAF can and should be a value added service to the AC. On the other hand, internal audit must deliver high-value services to the AC and the organization to sustain the needed level of support. Therefore, maximizing the value proposition of the IAF is an effective way to help ACs fulfil their demanding responsibilities. An effective relationship between the AC and internal auditors is fundamental to the success of the IAF. In order to support the expectations set for the IAF, ACs should take several steps to facilitate a mutually beneficial relationship with the internal auditors and the Chief Audit Executive (CAE).

The aim of the dissertation thesis is to examine whether and how the AC can contribute to the Internal Audit's Success. In the first part of this thesis, the theoretical foundations of the study are analyzed. Among others, the subject under examination is defined and the relevant bibliography that has been developed for this subject so far is analyzed. According to the sources used, i.e. books, articles, research papers etc., it is obvious that the AC plays a significant role on the internal audit operations in the terms of achieving the roles and tasks of modern internal auditing in the system of corporate governance. Moreover, several ways have been defined throughout the years with which the above contribution can be implemented.

In the second part of the dissertation thesis, the empirical analysis of the subject under investigation is analyzed, which was implemented through a questionnaire addressed to internal auditors and AC members. Overall, the results of the survey revealed that the AC could influence the quality of the internal audit operations from their cooperation at a significant level. The empirical analysis examined the ways through which the AC can contribute in IAF's success. Moreover, it concluded which of these actions actually take place in the organizations of the responders and which are considered among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition. Overall, the contributing action actually taking place indicated by the majority of the responders is to take care of elevating CAE's and IAF's stature and fostering its independence within the organization. The action considered as the most effective compared to the others is the monitoring and periodical assessment of the quality and effectiveness of the IAF.

## THEORETICAL FOUNDATIONS

The scope of this thesis is to examine whether and how the AC can contribute to the IAF's Success. More specifically, the research analyzes the role and the influence of the AC on the internal audit operations in the terms of achieving the roles and tasks of modern internal auditing in the system of corporate governance.

Both the AC and the IAF of an organization are of exceptional importance for the good practice of corporate governance. Their interrelation is significant, since:

- The performance of numerous roles and responsibilities of the AC is not possible without the appropriate interactions with the IAF.
- The quality of the internal audit operations is highly affected by the cooperation with the AC.

Over the years, the roles and responsibilities of the AC have become increasingly demanding. Among the many important roles the AC plays within an organization, is to provide effective oversight of quality-oriented internal audit activities, since IAF can be viewed as an objective insider; one that can serve as the eyes and ears of the AC. Maximizing the value proposition of the IAF is an effective way to help ACs address their risk oversight responsibilities. On the other hand, as the contribution of internal audit to effective organizational governance has evolved and become increasingly acknowledged, the AC's understanding of internal audit value has escalated exponentially. The above led me to the conclusion that the AC should work to enhance its oversight ability, taking the decision to study on the relationship between them, and more specifically on the role of the AC in the success of the IAF, examining whether and how the former can contribute to the increase of efficiency and quality improvement of the latter.

Throughout the years, many books, articles and papers have been written regarding the role of AC and IAF in corporate governance. Moreover, several surveys have been conducted dealing with influences of individual characteristics of the AC on the relationship between the AC and the IAF.

In 2001, Goodwin and Yeo (Goodwin, J., & Yeo, T. Y., 2001, Two factors affecting internal audit independence and objectivity: Evidence from Singapore. *International Journal of Auditing*) researched on the relationship of the AC and the internal audit operations in Singapore. They concluded that there is a higher probability that an AC consisting exclusively of non-executive members has a higher interaction with the IAF than those ACs that consist of executive members. Moreover, they concluded that the frequency of meetings between ACs and IAFs and probability of private meetings between them, without the presence of

management, is higher in the situation when all members of the AC are non-executive members.

In 2001, Raghunandan (Raghunandan, K., Read, W. J., & Rama, D. V., 2001, Audit committee composition, gray directors and interaction with internal auditing. *Accounting Horizons*, 105–118) conducted a research into the relationship of ACs and the internal audit operations in the USA. A positive correlation between the existence of accounting and financial knowledge, competence of the AC members, and frequency of meetings between the AC and the CAE and examining suggestions and the results of internal audit operations by the AC was found.

In 2010, Cohen and Sayag (Cohen, & A., Sayag, G., 2010, The effectiveness of internal auditing: An empirical examination of its determinants in Israeli organisations, *Australian Accounting Review* No. 54) in their empirical research tried to prove the hypothesis that greater support of the highest management level is related to internal auditing quality. They have empirically identified the existence of very high correlation between the support of the highest management level and the internal audit quality within companies from Israel. In addition, they identified the existence of a positive correlation between the organizational independence of internal auditing and its quality.

In 2015, Abdulaziz Alzeban (A. Alzeban, July 2015, Influence of audit committees on internal audit conformance with internal audit standards, *Managerial Auditing Journal*, 539-559) conducted a survey aiming to provide empirical evidence of the association between AC characteristics and IAF's conformance with the International Standards for the Professional Practice of Internal Auditing. Seventy-four usable responses were received from a survey of Chief Internal Auditors (CIAs) from Saudi companies listed on the Saudi Stock Exchange. The results indicate that AC characteristics (the presence of independent members on the committee, members' expertise in auditing and accounting and meeting with the CIA) influence internal audit conformance with the International Standards for the Professional Practice of Internal Auditing. Additionally, they demonstrate that such conformance is also influenced by CIA tenure. The results add to the literature on internal audit standards by introducing a Middle Eastern perspective and simultaneously providing insights for companies in their attempts to adhere to the international standards, hence, supporting efforts towards good corporate governance.

In 2015, Boris Tušek (B. Tušek, April 2015, The influence of the audit committee on the internal audit operations in the system of corporate governance – evidence from Croatia) conducted empirical research on a sample of 65 examinees, including internal auditors and members of the AC in Croatian companies. The performed analysis and tests showed that the

inclusion of the internal audit operations in the activities of the AC influences the increase of the quality of the IAF in a company.

### *Audit Committee's Role*

Within the context of an organization, the Board of Directors (BoD) - whether it is the board in a unitary or single-tier structure or the supervisory board in a dual or two-tiered structure - is responsible for determining its objectives, strategies, plans, and policies to achieve those objectives, as well as monitoring progress in their achievement. The BoD delegates some of its activities to subcommittees, though remaining responsible for the areas covered by these subcommittees (Ch. A. Mallin, 2016, *Corporate Governance*, 5<sup>th</sup> Edition, Oxford University Press). Subcommittees assist the BoD to accomplish the delegated duties and responsibilities in more detail than the BoD could do, increasing objectivity as well.

Responsibility for corporate governance is spread among several organizational entities. The cornerstones of effective governance are the BoD, executive management, the internal auditors, and the external auditors. However, it should be mentioned that the AC is arguably the most important of the board subcommittees. No single committee of the BoD is more focused on or better in tune with corporate governance than the AC.

The AC has a particular role, acting independently of executive management to ensure that the interests of the shareholders are properly protected in relation to risk management, internal control and financial reporting. It maintains a significant role in corporate governance, since it has a good understanding of the organization's structure, controls and types of transactions, as well as its business model and its associated risks. Moreover, it maintains a free and open communication with the external auditors, internal auditors, the second line of defense (i.e. risk, compliance and other controllership functions), and the management.

Among various things AC Members have on their minds, the following five are considered as the key issues: financial accuracy, risk management, control assessment, external auditor oversight, and the effective use of internal auditing. Concerning the financial accuracy, the primary concerns include the completeness of financial disclosures, significant business and accounting policy changes, correct and truthful reporting, and interim reviews of financial statements. As far as risk management is concerned, the implementation of an enterprise-wide risk management process, such as COSO's Enterprise Risk Management – Integrated Framework is of significant concern for AC members, in which key risks to all areas of the organization (strategic, operational, reporting, and compliance) are identified. About control assessment, AC must have an understanding of management's process for assessing internal

controls, applicable regulatory controls, and the greatest risks the organization faces. Regarding external auditor oversight, the AC should maintain the ownership of the relationship with the external auditors, who provide an annual opinion on the financial statements. Regarding the effective use of internal auditing, the AC and the internal auditors are interdependent and should be mutually accessible, with the internal auditors providing objective opinions, information, support, and education to the AC, and the AC providing validation and oversight to the internal auditors.

### *Internal Audit's Role*

The BoD of the Institute of Internal Auditors (IIA) adopted the current definition of internal auditing in 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”.

According to the IIA’s paper “Internal Auditing: Assurance, Insight, and Objectivity”, these three words describe the value of internal audit:

- Assurance: Internal auditing provides assurance on the organization’s governance, risk management, and control processes to help the organization achieve its strategic, operational, financial, and compliance objectives.
- Insight: Internal auditing is a catalyst for improving an organization’s effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.
- Objectivity: With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an independent source of objective advice.

Governing bodies and senior management rely on internal auditing for objective assurance and insight on the effectiveness and efficiency of governance, risk management, and internal control processes. Management and governing bodies can look to their internal auditors to provide assurance on whether policies are followed, controls are effective, and the organization is operating as management intends. Internal auditors have unique insight on which risks might lead to disaster; how to improve controls, processes, procedures, performance, and risk management; and ways to reduce costs, enhance revenues, and increase profits. Internal

auditors view the organization with the strictest sense of objectivity that separates them from - but makes them integral to - the business.

According to the IIA's Position Paper "The Three Lines of Defense in Effective Risk Management and Control", internal audit sits in the 3rd Line of Defense in the governance structure, providing independent challenge and assurance. Internal audit actively contributes to effective organizational governance providing certain conditions - fostering its independence and professionalism - are met. Best practice is to establish and maintain an independent, adequately, and competently staffed IAF, which includes:

- Acting in accordance with recognized international standards for the practice of internal auditing.
- Reporting to a sufficiently high level in the organization to be able to perform its duties independently.
- Having an active and effective reporting line to the governing body.

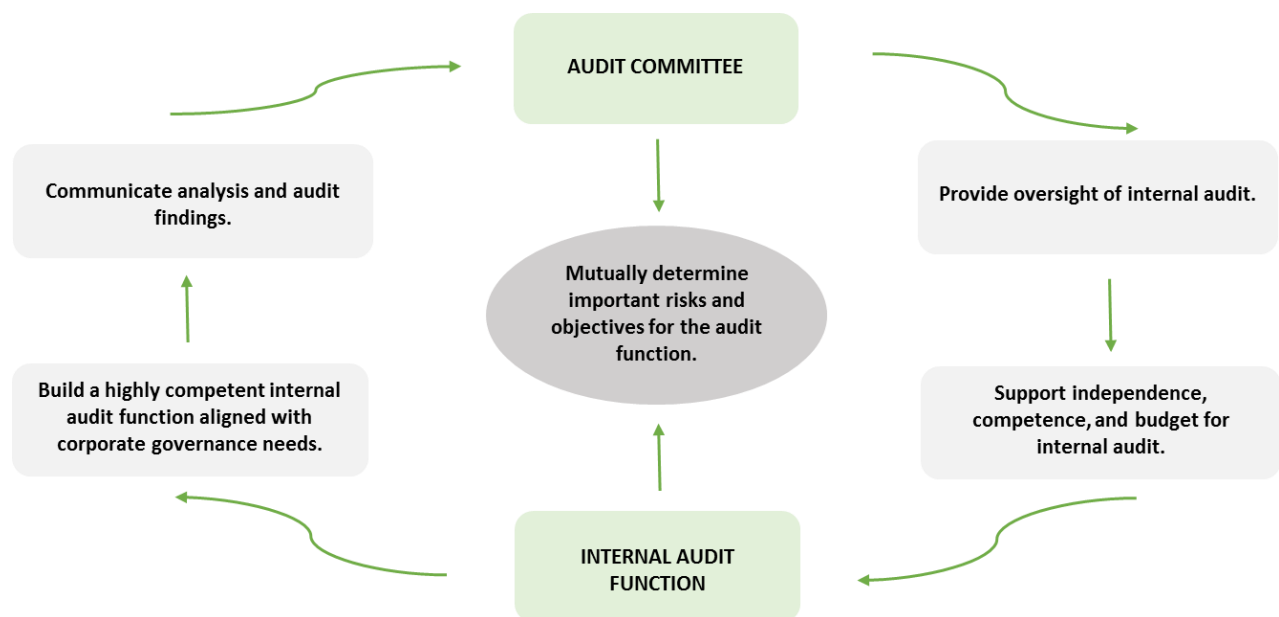
#### *Relation between Audit Committee and Internal Audit*

IAF's interaction with an AC is considered one of the cornerstones of good corporate governance, as well as an important relationship that supports internal audit independence and objectivity. According to the "Standard 1111: Direct Interaction with the Board" of the IIA's International Standards for the Professional Practice of Internal Auditing, "The chief audit executive must communicate and interact directly with the board". In situations where an AC exists, the BoD usually delegates audit and control oversight responsibility to the AC, still maintaining the responsibility for appropriate oversight.

The AC's role has evolved from a narrow focus on financial reporting and external auditing to a broader mandate that covers risk management oversight, internal controls, compliance, whistleblower processes, cyber security, and internal auditing. The AC has become an integral part of good governance endorsed by major stock exchanges and regulators, which are gradually requesting more transparency in the activities performed by the AC. Therefore, an increase in the disclosures contained in AC reports to shareholders has constantly been identified.

The IAF can and should be a value added service to ACs. Deriving from the abovementioned facts, mutual support between IAF and the AC is considered as extremely essential. On the one hand, the AC is essential for building and supporting a truly independent, competent IAF. On the other hand, IAF must deliver high-value services to the AC and the organization to sustain the needed level of support.

In 2016, the IIA Research Foundation depicted the mutual relationship between the AC and the IAF with the following diagram:



**Exhibit 1: The Mutual Relationship between the Audit Committee and the Internal Audit Function**

#### *How Audit Committee can contribute to Internal Audit's success*

The AC is a key player in ensuring that the IAF demonstrates high performance, is effective, and is viewed as an important part of the organization. As AC face a wider range of business risks and increased expectations from stakeholders, many ACs are turning to a particular resource - the IAF. Maximizing the value proposition of the IAF is an effective way to help ACs address their risk oversight responsibilities. A highly effective IAF can be an important resource, helping the AC understand how effectively the organization is managing its business risks.

In order to be successful, it is important for IAF to clearly understand the expectations set by the AC and management. Moreover, IAF should understand the perception of the value that internal audit adds to the organization and the AC, and how the success of internal audit activities is measured.

According to relevant bibliography, articles and research papers as mentioned in the Bibliography section, several key activities performed by the AC can contribute to the IAF's success as analyzed below:

1. Empowering CAE's and IAF's stature and fostering its independence within the organization

Empowering the CAE and his/her team reflects to the entire organization how important internal audit is (Getting the most out of internal audit, August 2016, Prepared by Price Waterhouse Coopers). When ACs think about their expectations of internal audit, they should also consider how the CAE and the IAF itself are positioned to deliver on those expectations. Access and perspective have always been keys to positioning. Such access has typically been attained through dual reporting lines to the AC and Senior Management. The direct reporting to the AC can be enhanced by granting the CAE “red phone access” to the AC and making this privilege known throughout the organization (Six Audit Committee Imperatives - Enabling Internal Audit to Make a Difference, July 2016, The Global Internal Audit Common Body of Knowledge). Moreover, internal audit can also benefit from CAE's regular presence in appropriate board or board committee meetings as the most effective strategy, so that potential competing priorities can be fully discussed at the board level and consensus views are reached. Increased access to, and more frequent interaction with, the board broadens the CAE's perspective and elevates the stature and visibility of the IAF. Elevating CAE's and IAF's stature at the board level can also be achieved if at least annually the AC Chair includes a reference to IAF's effectiveness, capabilities, the results of its work and any concerns when reporting to the BoD.

2. Promoting IAF mission and keeping it aligned with the organization's strategy

AC members should be aware of IAF's mission in order to determine whether it is aligned with the organization's strategy. Therefore, the AC should review and approve the IAF's charter annually.

Internal audit's dual reporting lines, wherein which the function is required to answer to both an organization's Senior Management and AC, could result in a lack of clarity of focus or an unclear mission. Accordingly, the AC should help IAF define a mission and ensure that there is agreement across the organization. While the mission should consider staffing and budget concerns, as well as how resources should be focused (i.e. in financial reporting, high-risk areas, regulatory and compliance, or process improvement) – it should, most importantly, be aligned with the organization's strategic objectives and address risks identified through enterprise risk management efforts. The AC should work with the CAE and management to shape the mission of IAF and oversee the allocation of resources to the various priority areas. The AC can help the CAE bring about this alignment of stakeholder expectations having in



mind that the success factors that stakeholders consider in assessing internal audit performance include (Six Audit Committee Imperatives - Enabling Internal Audit to Make a Difference, July 2016, The Global Internal Audit Common Body of Knowledge):

- The provision of useful recommendations that address the root cause of identified issues which is also implied by the Standard 2320 “Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations” and also Implementation Guide 2320 “Root cause analyses enable internal auditors to add insights that improve the effectiveness and efficiency of the organization’s governance, risk management, and control processes”.
- Quality audit work and reliable results on key risk areas
- Timely communication of identified risks to appropriate stakeholders
- Consultative guidance on new emerging risk areas

3. The AC should secure proper management attention and support the resolution of internal audit findings

Securing proper management attention is of great importance; in difficult cases, the AC is the IAF’s strongest ally. The AC should reinforce timely resolution of internal audit recommendations by holding management accountable to implementing changes according to the agreed-upon timetable. The AC should concentrate on gaining assurance that the organization’s risk management, control and governance arrangements are adequate and effective (Internal Audit, Audit Committee Handbook Chapter 5 – Part 2, Audit Committee News Edition 54 / Q3 2016 / Corporate Governance, KPMG). For this purpose, the AC should ensure that there is an adequate system to monitor the implementation of agreed audit recommendations, which reflects the significance level at which AC perceives internal audit activity.

In addition, consistent follow up on internal audit findings and reports in coordination with the BoD should be carried out. The AC should liaise with the executive managers in order to foster risk culture and risk management, for all the subject matters highlighted by the IAF. An effective way for AC to support the resolution of internal audit findings is to request that members of management with significant findings or findings that have not been resolved in a reasonable period of time personally attend AC meetings, explain any root causes of the findings, and commit to a plan of resolution (Getting the most out of internal audit, August 2016, Prepared by Price Waterhouse Coopers).

#### 4. Encouraging internal auditors to think beyond the scope of the audit plan

ACs should encourage internal auditors to think beyond the scope of the audit plan (Six Audit Committee Imperatives - Enabling Internal Audit to Make a Difference, July 2016, The Global Internal Audit Common Body of Knowledge). The CAE needs to challenge the internal auditors to think about the implications of audit findings across the organization, so that audit communications correspond to a business context that is broader than the boundaries set by the audit plan. Just because an issue is not in scope, it does not mean that ACs and other stakeholders in the organization do not want to hear about it. It also helps internal audit to communicate what is not being audited or cannot be audited. To encourage “think beyond” behavior, the AC should practice it as well, remind their CAEs that audits should not be a check-the-box exercise and ask them questions, such as:

- What is the real meaning of these findings?
- Is there a broader message we should be aware of?
- Are there improvements to our processes that we need to make?
- How do these findings relate to other areas of our business?
- Are there potential crisis events that we have not thought about and for which we are unprepared to respond?

Except from the above, the AC should be able to understand BoD's needs, managerial choices, new internal audit trends and new audit technologies as well, evaluate them and communicate them to IAF thoroughly in order to contribute in the preparation of an internal audit plan that will help implement them.

#### 5. Identifying opportunities where the IAF can add the most value through performing advisory work

First, it should be noted that the effort of identifying opportunities for advisory work should not compromise the objectivity of internal auditors or prevent them from performing their assurance work. The mix of assurance versus consulting activities depends on the maturity of the organization, the skills of the IAF staff, the resources available to fill skills gaps, and the nature of the environment (e.g. highly regulated). ACs should identify opportunities where internal audit can add the most value through performing advisory work. For example, the AC can authorize IAF to evaluate and challenge the design and operating effectiveness of the organization's governance, risk management, and internal control processes that address its critical risks, with the expectation of a) receiving value-added recommendations to strengthen those processes, and b) keeping the committee informed regarding open matters (Six Audit

Committee Imperatives - Enabling Internal Audit to Make a Difference, July 2016, The Global Internal Audit Common Body of Knowledge).

6. Creating effective communication channels and retain frequent communication with the IAF

The AC should prioritize high quality, effective and frequent communication with the IAF, which ensures that both parts have an opportunity to evaluate the progress and results of the internal audit plan against the initial plan, review any significant changes made subsequently, and address any gaps (Six Audit Committee Imperatives - Enabling Internal Audit to Make a Difference, July 2016, The Global Internal Audit Common Body of Knowledge). Effective communications enable the AC to work with internal audit leaders to better understand the internal audit process and its insight. Moreover, through effective communication, the AC can help the CAE fully understand and achieve what is expected.

The AC should hold private sessions with the CAE as part of the regular schedule of AC meetings and private meetings between the AC Chair and the CAE as well (Audit Committee Effectiveness: What Works Best, 4<sup>th</sup> Edition, The Institute of Internal Auditors Research Foundation (IIARF), Prepared by Price Waterhouse Coopers). A private session allows the CAE to provide candid, often confidential, comments to the AC, which might not otherwise occur with management presence. On the other hand, the AC may have more knowledge than the CAE on several matters, and this private session may allow the AC to provide guidance on such issues. Overall, “in camera” meetings can play an important role in the development of a trusting and respectful relationship between the AC and the CAE (Internal Audit, Audit Committee Handbook Chapter 5 – Part 2, Audit Committee News Edition 54 / Q3 2016 / Corporate Governance, KPMG). “In camera” meetings could also be performed individually with the internal auditors apart from the CAE.

7. Performing a communications quality assessment between AC and IAF

Periodic assessment of communication effectiveness is a critical yet often overlooked component of AC and CAE responsibilities (Ed Williams, November 2015, Effective Audit Committee Communication: Keys to Success for Internal Auditors). The AC should motivate CAEs to consider promoting and facilitating a communication quality assessment on an annual basis. Good communication is the foundation of any successful relationship; failure to successfully communicate hinders relationship building and diminishes credibility. The

greater the quality of communication and interaction between the AC and the IAF, the greater the influence in terms of increasing efficiency of the internal audit operations.

8. Reviewing risk assessment and risk-based audit plan conducted by the IAF and providing feedback on their adequacy and alignment with stakeholder expectations

The AC not only should review the internal audit's risk assessment and risk-based audit plan, but also provide feedback on their adequacy and alignment with stakeholder expectations. The AC should be informed on the areas not being audited (R. Leblanc, 2016, *The Handbook of Board Governance: A Comprehensive Guide for Public, Private, and Not-for-Profit Board Members*, Wiley), e.g. due to lack of resources, and assess what risk is left unaudited. The AC could also be provided with an assurance map showing where independent assurance is provided and by whom, and the level of assurance. Then, the AC could agree on the risk areas to be audited and unaudited and consult IAF to address any gaps identified, request for spare capacity for extraordinary engagements, proceed with the recruitment of resources in order to cover high-risk areas left unaudited etc. The above consists a crucial activity, since the AC and management may take a different view of timing and priorities, which should be resolved through discussion.

9. Assessing sufficiency and qualifications of IAF's resources

The AC needs IAF to provide assurance and advice on controls, reporting, and risk management, and to anticipate risks, issues, and problems (Where insights lead: Nine ways to strengthen Internal Audit's impact and influence in the organization, 2017, Deloitte). Stakeholders need IAF to be engaged in decisions and initiatives before problems occur, not to only cite what went wrong after the fact. Given the organization's evolving needs, IAF's skills must evolve if the function is to remain relevant, let alone increase its impact and influence.

The AC should participate in the appointment, promotion or dismissal of the CAE, and help determine the required qualifications and compensation (Internal Audit, Audit Committee Handbook Chapter 5 – Part 2, Audit Committee News Edition 54 / Q3 2016 / Corporate Governance, KPMG). The CAE's annual audit plan should communicate to the AC the sufficiency and qualifications of resources to meet its objectives. Except from the human resources, the AC should also take into consideration and challenge the methods and approaches used.

In this way, the AC could act in a way of safeguarding the IAF's resources and protecting their independence from Executive Management. Many IAFs look beyond in-house resources and co-source or sometimes even fully outsource the roles of the IAF. As part of its oversight, the AC should understand not only the annual audit plan, but also the staffing levels, mix of the IAF and potential skill shortages, deterring situations where spending pressures may impede internal audit from meeting its key objectives.

Especially in cases where the organization outsources some or all of the IAF, the AC should understand the underlying factors of that decision, in order to assess it and provide the necessary support.

#### 10. Monitoring and periodically assessing the quality and effectiveness of the IAF

The AC can rely on IAF's work and findings only if the function fulfills its duties. It is crucial that the AC should periodically assess the performance of the IAF as a whole and the CAE in particular. Therefore, the AC should firstly understand how IAF monitors its own quality, i.e. through quality assurance and improvement programs to assess whether audits are conducted in accordance with the professional internal auditing standards.

The performance assessment will help the AC answer crucial questions, such as (Audit Committee Effectiveness: What Works Best, 4<sup>th</sup> Edition, The Institute of Internal Auditors Research Foundation (IIARF), Prepared by Price Waterhouse Coopers):

- Is the internal audit focused on the right topics?
- Does management turn to internal audit when there are issues?
- Is internal audit issuing timely reports to management?
- Does the internal audit have the right incentives and supplies to drive superior performance?

By performing a periodic assessment, ACs can more effectively communicate their expectations of IAF, help align those expectations with other stakeholders, and support the CAE in assessing the IAF's ability to meet expectations. For this purpose, a Balanced Scorecard Framework could be developed.

#### 11. Composing the AC with due consideration

The composition of the AC (members' independence and expertise) affects both the IAF's independence and effectiveness. Therefore, the composition of the AC is of great importance and respective consideration should be given.

It is important that AC members not only possess formal independence according to prescribed criteria, but also have independence of thought, judgment and action, so that independence is not only perceived or seen, but is real and applied. AC members should voice their own opinions and not allow their trust in, or relationships with, management to compromise their continual display of impartiality and objectivity.

The AC should be comprised of independent high quality calibre BoD members, enjoying the strong support of the main shareholders and thus being able to effectively monitor and support management, while providing value added guidance to the BoD. It is worth mentioning that according to the article “Audit Committee Composition and Interaction with Internal Auditing: Canadian Evidence” published in Accounting Horizons in 1998 by D. Paul Scarbrough and K. Raghunandan, “audit committees consisting of solely non-employee directors are more likely, than audit committees with one or more insiders, to have frequent meetings with the chief internal auditor, and review the internal auditing program and results of internal auditing”. Moreover, the expertise of the AC members and their familiarity with the IIA’s International Standards for the Professional Practice of Internal Auditing enable them to effectively communicate with internal auditors, providing great value for purposes of enhancing the quality of internal audit activities. Last but not least, both internal auditor’s independence and effectiveness will be strengthened if they report directly to an AC which does not include a former or current member of the management of the organization (Abbott et al, 2004).

## EMPIRICAL ANALYSIS

### *Research Methodology Approach*

This research examines whether and how the AC can contribute to the IAF's Success. As a result, a questionnaire was conducted and sent to AC members and internal audit practitioners in several industries. The time period under investigation was April 2018 - June 2018. The questionnaires were anonym and were sent via electronic form, mainly through e-mail and LinkedIn.

The questionnaire was designed in a way that facilitates rapid completion and is consisted of two parts. The first part of the survey consists of fifteen statements for which the responders were requested to express their level of agreement or disagreement, considering if these statements express an action through which the AC can contribute to the IAF's success. The second part of the survey refers to a measurement of what is actually applied and an assessment of the effectiveness of the statements mentioned.

At this questionnaire, there are only "closed-end" questions, where respondents are asked to choose from default answers. The majority of the questions on the questionnaire derived from a five-point Likert scale analysis, which measures positive or negative answers to a statement, classified as follows:

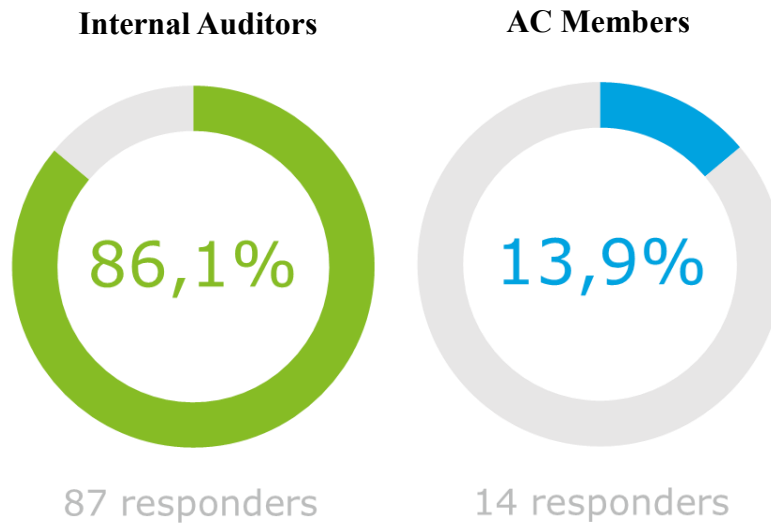
Scale	Rating
1	Strongly disagree
2	Disagree
3	Neither agree nor disagree
4	Agree
5	Strongly agree

The Likert scale was used in order for the responder to indicate the degree of agreement or disagreement on the subject. The scale of the questions that are used in the questionnaire is well balanced with an equal number of positive and negative answers.

Regarding the collection of the data, it was not considered necessary to provide clarifications during the completion of the questionnaire. The questions were easy for participants to understand without any extensive explanation for answering them. After gathering the questionnaires, a check for its completeness and its validity was made. The survey was completed correctly.

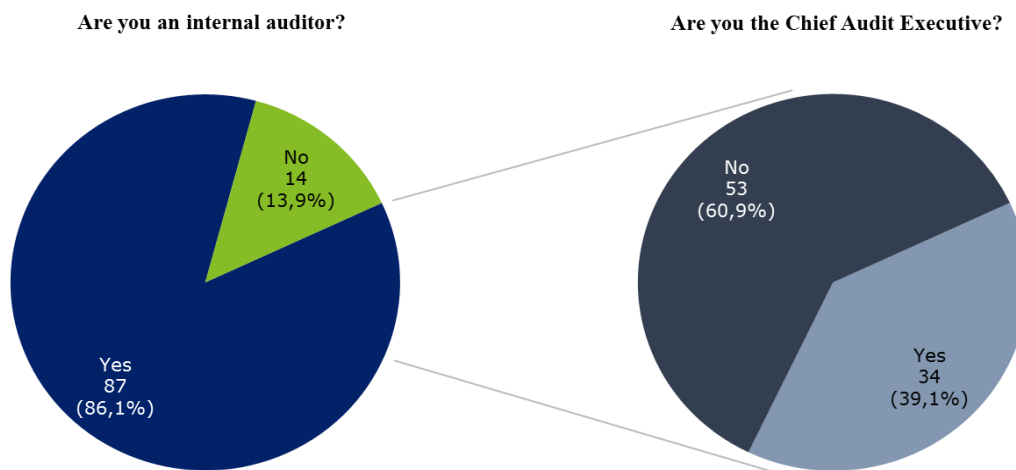
### Sample analysis

In total, the responders reached the number of 101, out of which 87 participated under the IAF side and 14 under the AC side:



### Exhibit 2

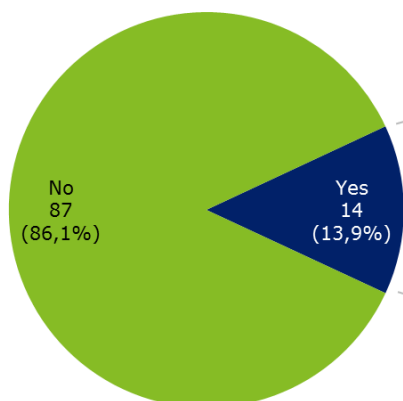
Below you may find a further allocation of the above responders between internal auditors and CAE, and AC Chair and other members:



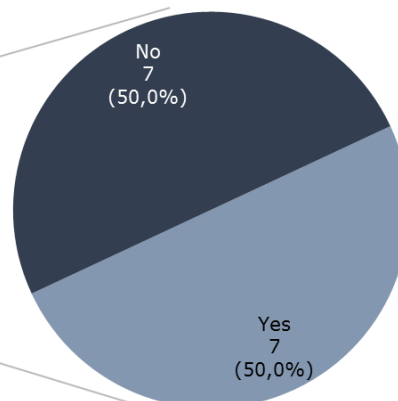
### Exhibit 3



Are you a member of Audit Committee?

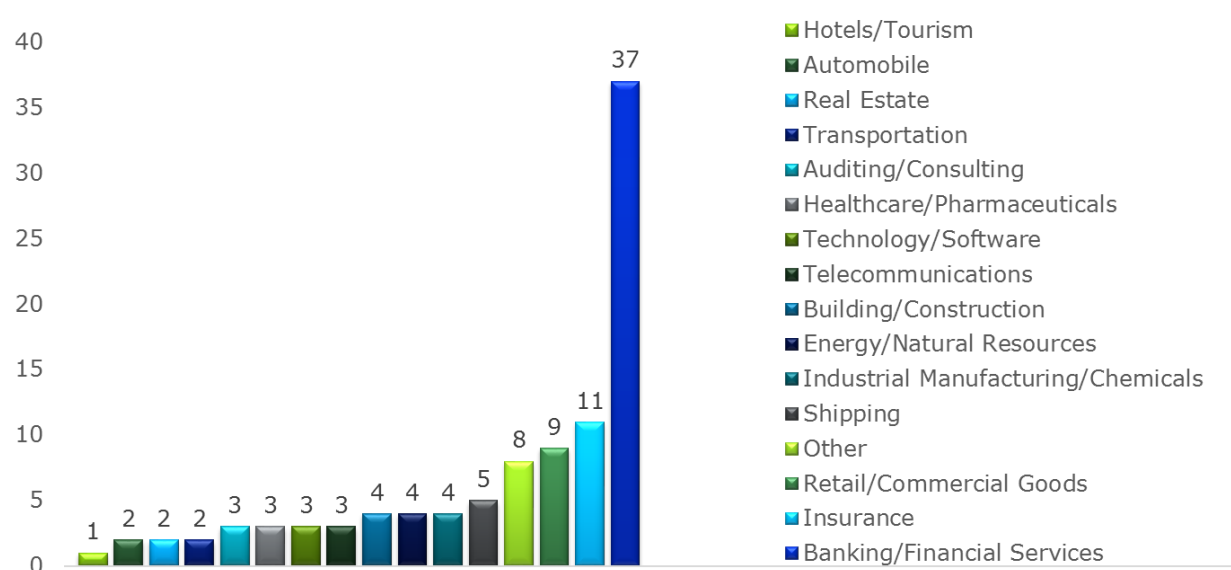


Are you the Audit Committee Chairman?



**Exhibit 4**

The activity allocation of the responders is depicted below:



**Exhibit 5**

### *Methodology of data processing*

As abovementioned, the collection of the data was carried out through a questionnaire sent to Internal Auditors and AC Member. The fifteen statements for which the responders were requested to express their level of agreement or disagreement were created based on the theoretical foundations analyzed in the chapter “How Audit Committee can contribute to Internal Audit’s success” of this dissertation thesis. Along with the statistical analysis of the

statements, the second part of the survey is presented combined to the first one, in order to depict which of the statements are actually applied in their working environment and how these statements are assessed in terms of effectiveness, as perceived by the responders. The findings of this survey guide us in drawing conclusions on whether and how the AC can contribute to the IAF's Success. Moreover, there are also some recommendations provided for further research.

Each question is analyzed with a statistical analysis of the variables, showing a frequency table, percentage rate and cumulative percentage frequency, using the Microsoft Office Excel 2016. In addition, in each question there is the corresponding stacked column chart where the results are presented for easier interpretation and perception. The stacked column chart was selected, because the graph will also allocate the responses concerning the second part of the survey in the following stacks:

- The action actually takes place in the organization.
- The action belongs among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition.
- Both statements are fulfilled, i.e. the action actually takes place in the organization and it belongs among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition.
- None statement is fulfilled, i.e. neither the action actually takes place in the organization nor it belongs among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition.

### *Analysis of results*

In this section, the responses for each statement are analyzed following the above methodology.

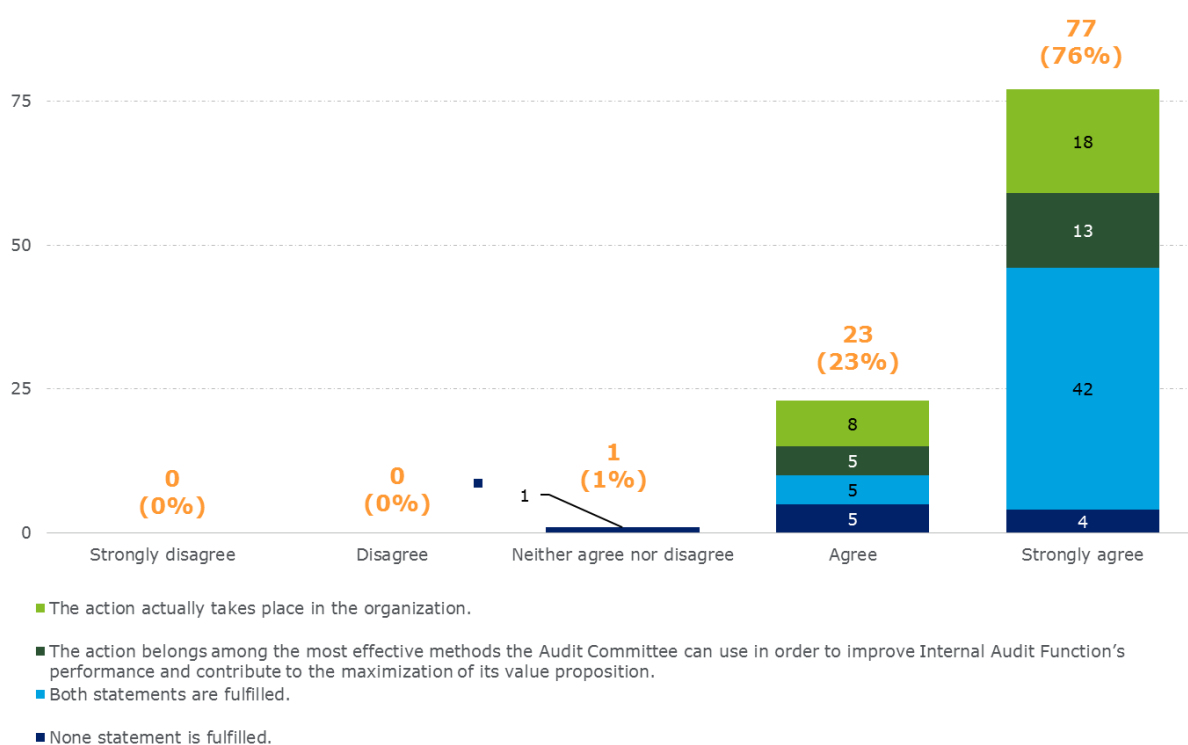
#### **Statement 1**

*The Audit Committee should take care of elevating Chief Audit Executive's and Internal Audit Function's stature and fostering its independence within the organization (e.g. through appropriate reporting lines, regular presence in appropriate board or board committee meetings etc.).*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	0	0,00%	0,00%
<b><i>Disagree</i></b>	0	0,00%	0,00%
<b><i>Neither agree nor disagree</i></b>	1	0,99%	0,99%
<b><i>Agree</i></b>	23	22,77%	23,76%
<b><i>Strongly agree</i></b>	77	76,24%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



#### Exhibit 6

As it is depicted above, the majority of the responders, thus 76%, strongly agree with the statement. Moreover, out of the 77 responders that strongly agree with the statement, there are 42 responders who declared that in their opinion this action both illustrates one of the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition, and that it actually takes place in their organization. All the above indicate the tremendous role of AC in the empowerment of CAE's and IAF's stature and independence, which is also mentioned in the researched bibliography.

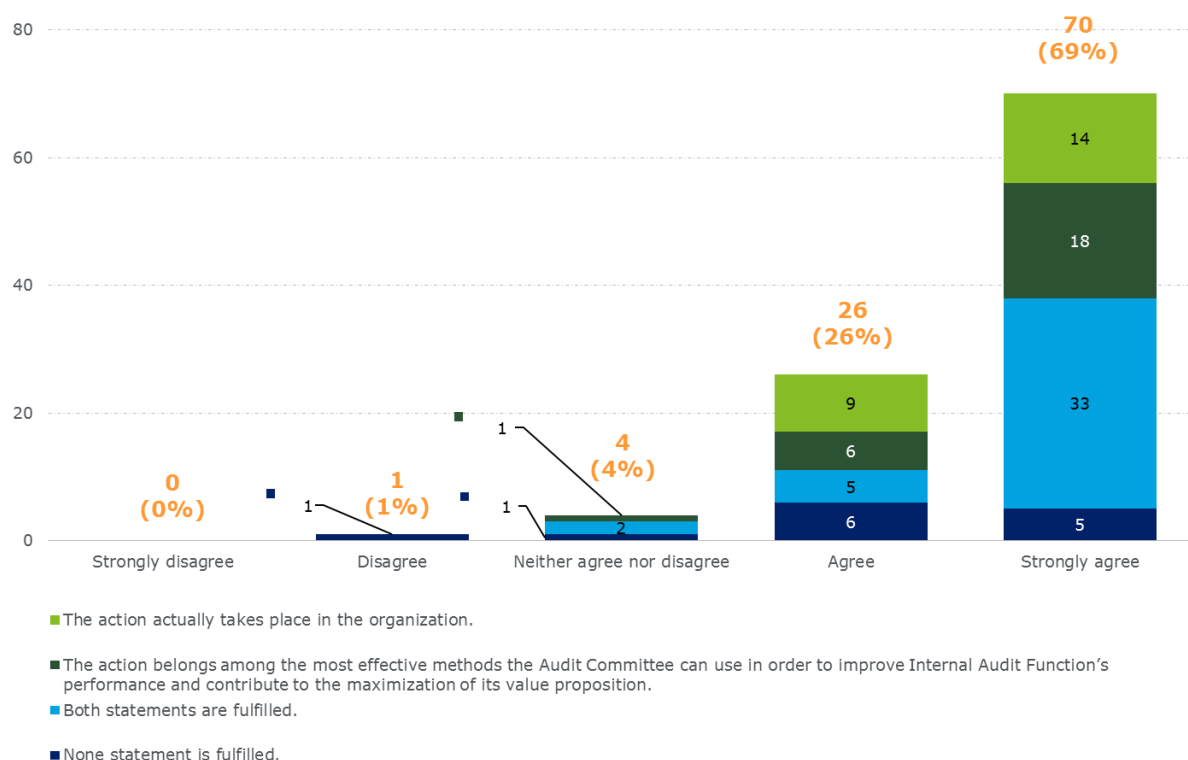
## **Statement 2**

*The Audit Committee should promote Internal Audit mission and keep it aligned with the organization's strategy, empowering the Chief Audit Executive to bring views and insights to stakeholders on risks to achieving objectives and executing strategy.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	0	0,00%	0,00%
<b><i>Disagree</i></b>	1	0,99%	0,99%
<b><i>Neither agree nor disagree</i></b>	4	3,96%	4,95%
<b><i>Agree</i></b>	26	25,74%	30,96%
<b><i>Strongly agree</i></b>	70	69,31%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



### **Exhibit 7**

As it is depicted above, the majority of the responders, thus 69%, strongly agree with the statement. Moreover, out of the 70 responders that strongly agree with the statement, there are

33 responders who declared that in their opinion this action both illustrates one of the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition, and that it actually takes place in their organization. All the above indicate the significant position that IAF has gained throughout the years. Not only IAF should support the AC in its activities, but vice versa. Along with the AC's support, IAF retains its vital position in an organization, providing its views and insights to stakeholders on new technologies, risks, controls, improvement of operations effectiveness and efficiency, remaining aligned with the organization's strategy.

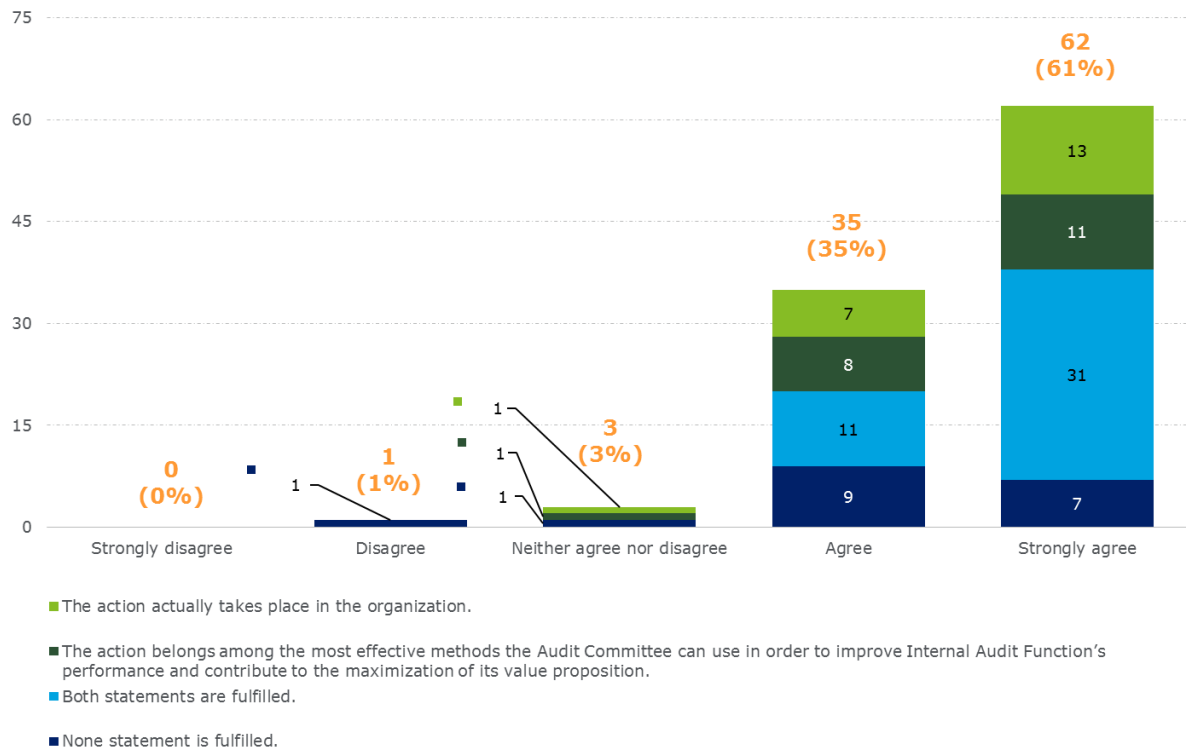
### **Statement 3**

*The Audit Committee should secure proper management attention and support the resolution of internal audit findings.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<i>Strongly disagree</i>	0	0,00%	0%
<i>Disagree</i>	1	0,99%	0,99%
<i>Neither agree nor disagree</i>	3	2,97%	3,96%
<i>Agree</i>	35	34,65%	38,61%
<i>Strongly agree</i>	62	61,39%	100%
<i>Total</i>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



#### Exhibit 8

As it is depicted above, the majority of the responders, thus 61%, strongly agree with the statement. Moreover, out of the 62 responders that strongly agree with the statement, there are 31 responders who declared that in their opinion this action both illustrates one of the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition, and that it actually takes place in their organization. It is worth mentioning that out of 97 responders who although agree (35) or strongly agree (62) with the statement, upon relevant calculations, we concluded that there are 35 of them, i.e. 36%, who responded that this action is not actually taking place in their organization. Therefore, the AC should enhance or adopt actions in order to secure proper management attention and support the resolution of internal audit findings.

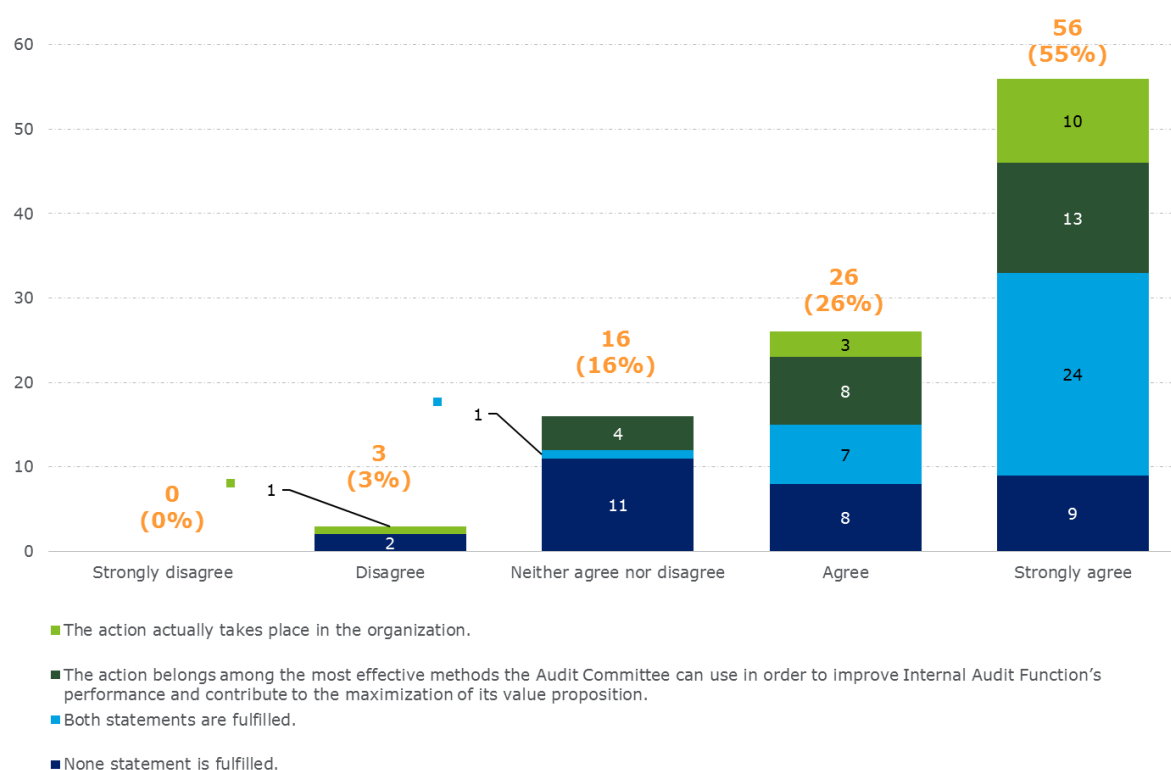
#### **Statement 4**

*The Audit Committee should encourage internal auditors to think beyond the scope of the audit plan and remind their Chief Audit Executive that audits should not be a check-the-box exercise.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<i>Strongly disagree</i>	0	0,00%	0,00%
<i>Disagree</i>	3	2,97%	2,97%
<i>Neither agree nor disagree</i>	16	15,84%	18,81%
<i>Agree</i>	26	25,74%	44,55%
<i>Strongly agree</i>	56	55,45%	100%
<i>Total</i>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



#### Exhibit 9

As it is depicted above, the majority of the responders, thus 55%, strongly agree with the statement. Moreover, out of the 56 responders that strongly agree with the statement, there are 24 responders who declared that in their opinion this action both illustrates one of the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition, and that it actually takes place in their organization. It is worth mentioning that out of 82 responders who although agree (26) or strongly agree (56) with the statement, upon relevant calculations, we concluded that there are 30 of them, i.e. 37%, who did not consider this action among the most effective methods.

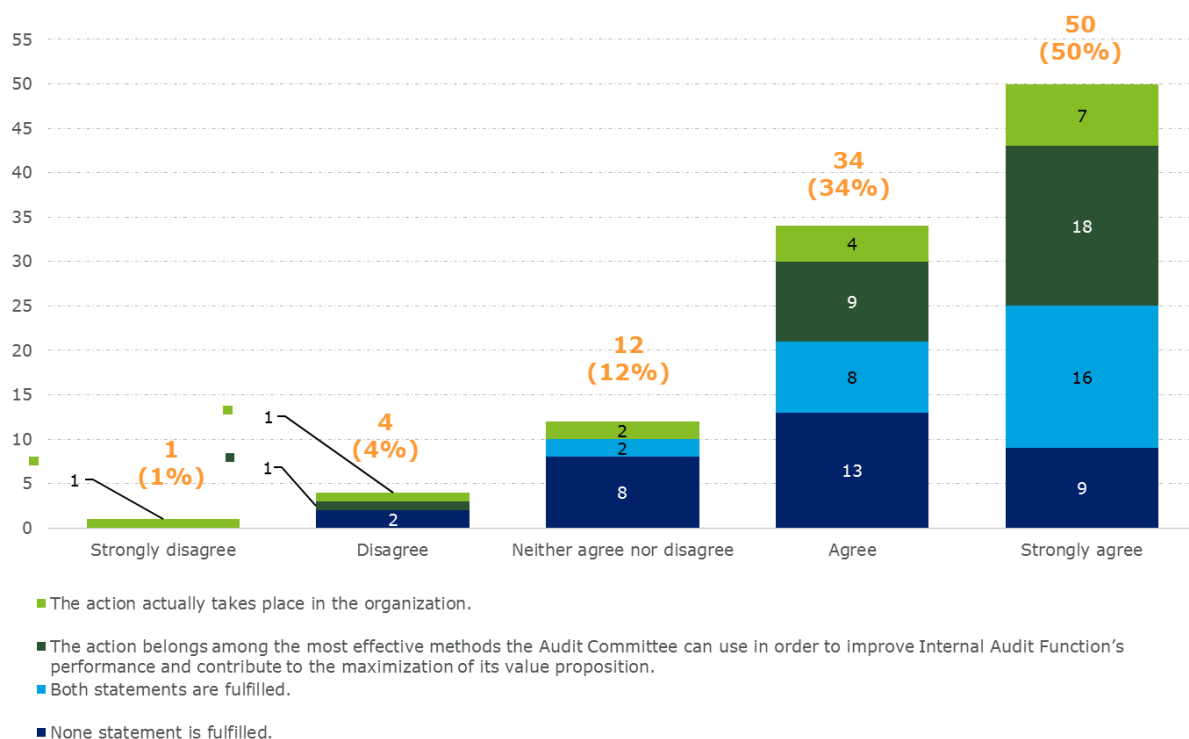
### **Statement 5**

*The Audit Committee should identify opportunities where the Internal Audit Function can add the most value through performing advisory work and not be limited to assurance work.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	1	0,99%	0,99%
<b><i>Disagree</i></b>	4	3,96%	4,95%
<b><i>Neither agree nor disagree</i></b>	12	11,88%	16,83%
<b><i>Agree</i></b>	34	33,66%	50,50%
<b><i>Strongly agree</i></b>	50	49,50%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



### **Exhibit 10**

As it is depicted above, half of the responders, thus 50%, strongly agree with the statement. Moreover, out of the 50 responders that strongly agree with the statement, there are only 16 responders who declared that in their opinion this action both illustrates one of the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition, and that it actually takes place in their organization. It



is worth mentioning that out of 84 responders who although agree (34) and strongly agree (50) with the statement, upon relevant calculations, we concluded that there are 49 of them, i.e. 58%, who responded that this action is not actually taking place in their organization. Therefore, the AC should help in the identification of opportunities where the IAF can add the most value through performing advisory work in order to contribute in the success of IAF.

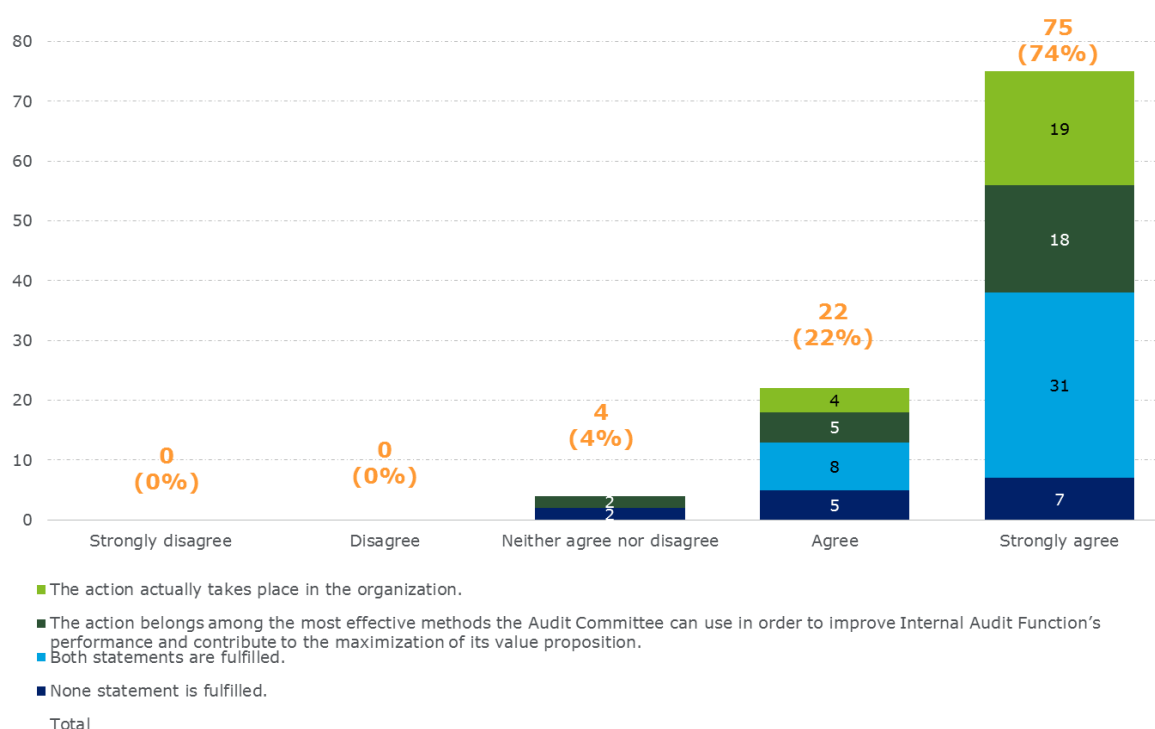
### **Statement 6**

*The Audit Committee should create effective communication channels and retain frequent communication with the Internal Audit Function.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	0	0%	0%
<b><i>Disagree</i></b>	0	0%	0%
<b><i>Neither agree nor disagree</i></b>	4	3,96%	3,96%
<b><i>Agree</i></b>	22	21,78%	25,74%
<b><i>Strongly agree</i></b>	75	74,26%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



**Exhibit 11**

As it is depicted above, the majority of the responders, thus 74%, strongly agree that with the statement. Moreover, out of the 75 responders that strongly agree with the statement, there are 31 responders who declared that in their opinion this action both illustrates one of the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition, and that it actually takes place in their organization. The survey validates the extended bibliography regarding the importance to create effective communication between the AC and the IAF, since:

- 62 of the 101 responders declared that this action actually takes place in their organization
- 64 of the 101 responders declared that this action belongs among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition.

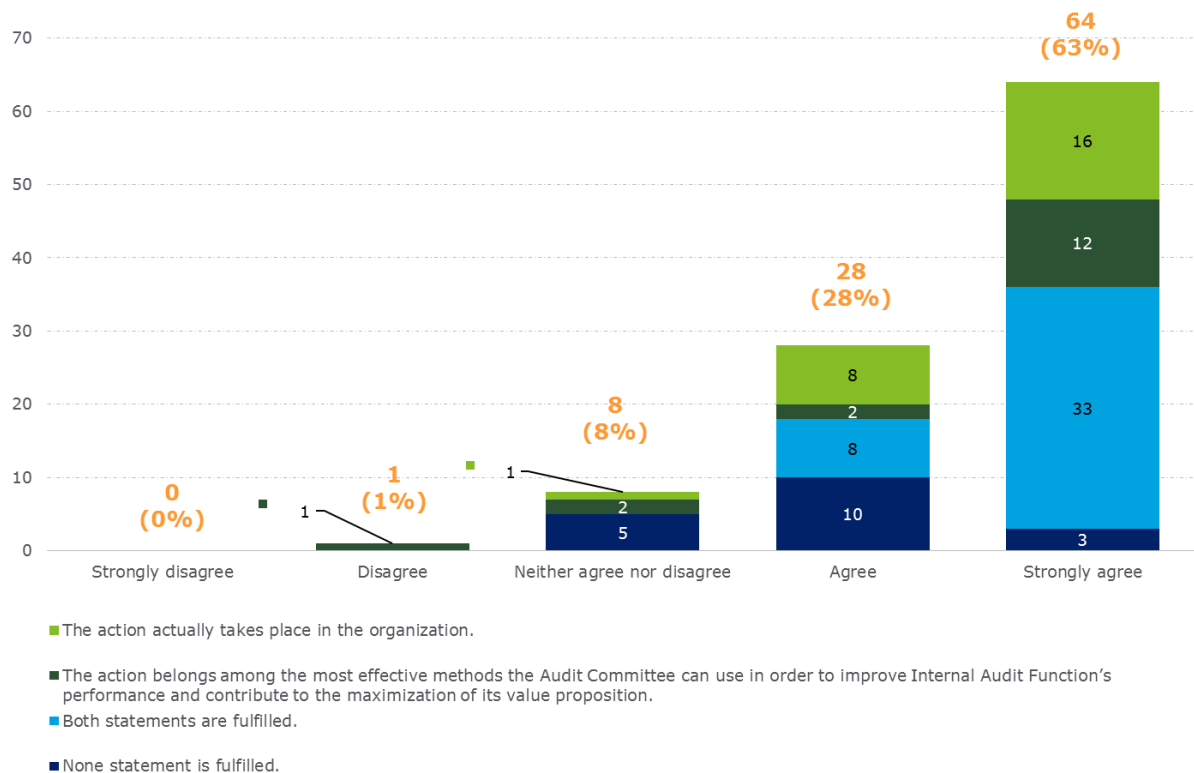
### **Statement 7**

*The Audit Committee should hold private meetings with the Chief Audit Executive in order to allow more open and candid discussion and maximize benefits for both parts (Audit Committee and Internal Audit Function).*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	0	0%	0%
<b><i>Disagree</i></b>	1	0,99%	0,99%
<b><i>Neither agree nor disagree</i></b>	8	7,92%	8,91%
<b><i>Agree</i></b>	28	27,72%	36,63%
<b><i>Strongly agree</i></b>	64	63,37%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



**Exhibit 12**

As it is depicted above, the majority of the responders, thus 63%, strongly agree with the statement. Moreover, out of the 64 responders that strongly agree with the statement, there are 33 responders who declared that in their opinion this action both illustrates one of the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition, and that it actually takes place in their organization. Similarly to the previous statement analyzed, the survey validates the extended bibliography regarding the importance of private meetings between the CAE and the AC, since:

- 66 of the 101 responders declared that this action actually takes place in their organization
- 58 of the 101 responders declared that this action belongs among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition.

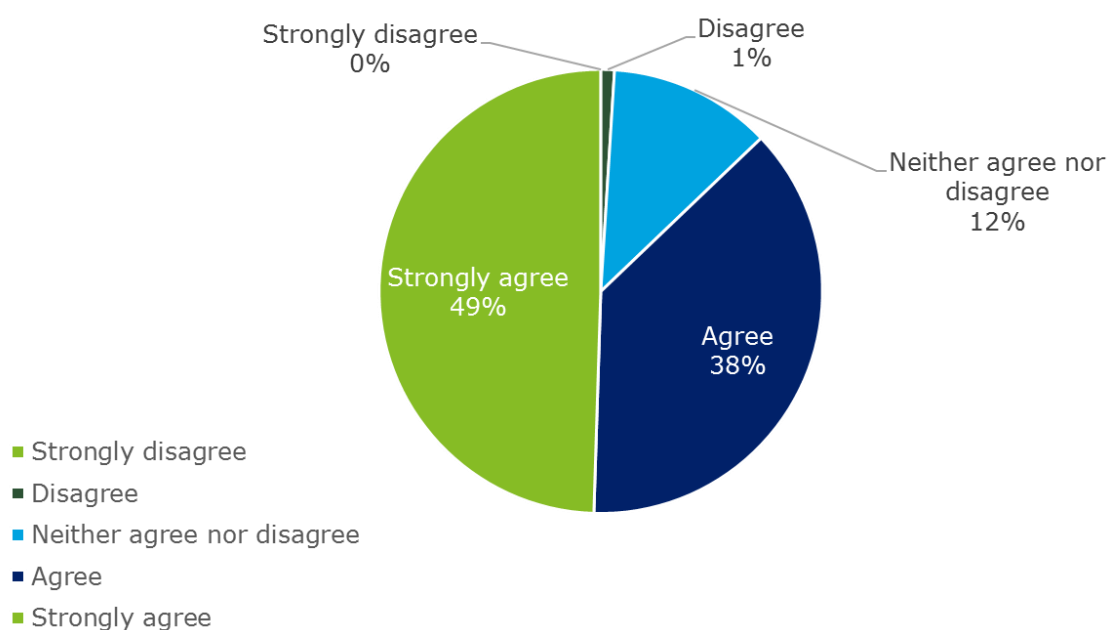
### **Statement 8**

*The greater the quality of communication and interaction between the Audit Committee and the Internal Audit Function, the greater the influence in terms of increasing efficiency of the internal audit operations.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	0	0%	0%
<b><i>Disagree</i></b>	1	0,99%	0,99%
<b><i>Neither agree nor disagree</i></b>	12	11,88%	12,87%
<b><i>Agree</i></b>	38	37,62%	50,50%
<b><i>Strongly agree</i></b>	50	49,50%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

This statement does not provide for analysis on the second part of the survey; therefore, it was not requested in the questionnaire. However, the above results are presented through a pie chart:



**Exhibit 13**

As it is depicted above, almost half of the responders, thus 49%, strongly agree with the statement. This statement enhances the importance of the two previous statements.

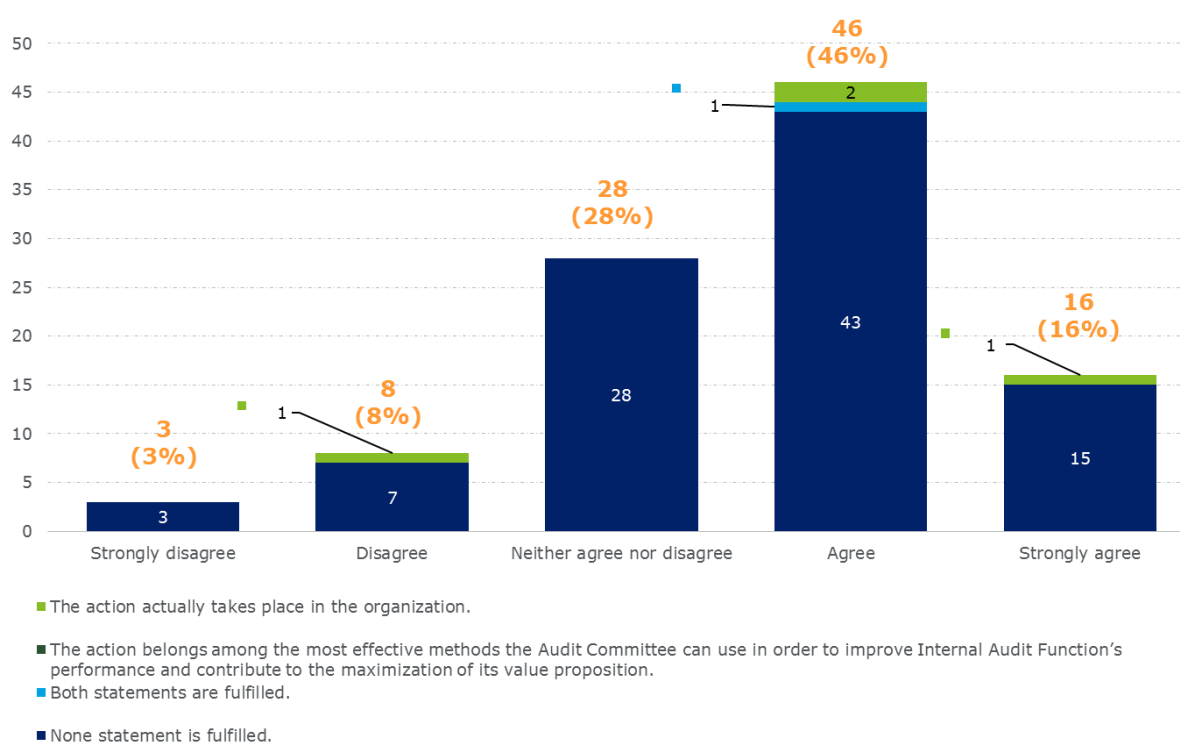
### **Statement 9**

*The Audit Committee should perform a communications quality assessment between Audit Committee and Internal Audit Function.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	3	2,97%	2,97%
<b><i>Disagree</i></b>	8	7,92%	10,89%
<b><i>Neither agree nor disagree</i></b>	28	27,72%	38,61%
<b><i>Agree</i></b>	46	45,54%	84,16%
<b><i>Strongly agree</i></b>	16	15,84	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



**Exhibit 14**

As it is depicted above, a large portion of the responders, thus 46%, agrees that the performance of a communications quality assessment by the AC will have an influence on the internal audit operations in terms of achieving the roles and tasks of modern internal auditing in the system of corporate governance. However, the survey revealed that:

- only 5 responders declared that this action actually takes place in their organization
- only 1 responder declared that this action belongs among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition

Therefore, although the communications quality assessment by the AC seems to be able to contribute in the IAF's success, we can assume that it is not considered as a priority. This means that it could be performed in rare time intervals or/and when there are indications that the communication is not efficient, effective and timely.

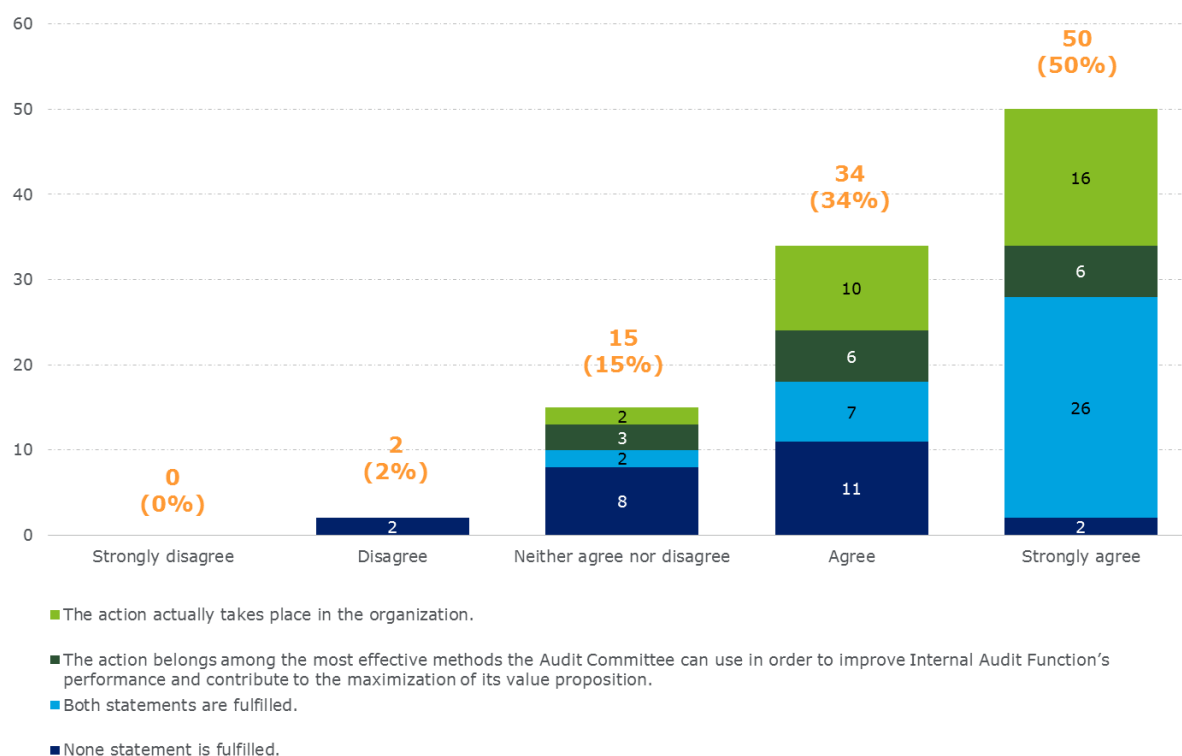
### **Statement 10**

*Delivering the risk assessment and risk-based audit plan conducted by the Internal Audit Function to the Audit Committee will have positive influence on the quality of the internal audit operations.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i><b>Answer Choice</b></i>	<i><b>Frequency</b></i>	<i><b>%</b></i>	<i><b>Cumulative %</b></i>
<i><b>Strongly disagree</b></i>	0	0,00%	0,00%
<i><b>Disagree</b></i>	2	1,98%	1,98%
<i><b>Neither agree nor disagree</b></i>	15	14,85%	16,83%
<i><b>Agree</b></i>	34	33,66%	50,50%
<i><b>Strongly agree</b></i>	50	49,50%	100%
<i><b>Total</b></i>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



### Exhibit 15

As it is depicted above, half of the responders, thus 50%, strongly agree that with the statement. Moreover, it is worth mentioning that the majority of the responders who strongly agree with this statement, i.e. 42 out of 50 responders (84%), answered that indeed this action is carried out in their organization.

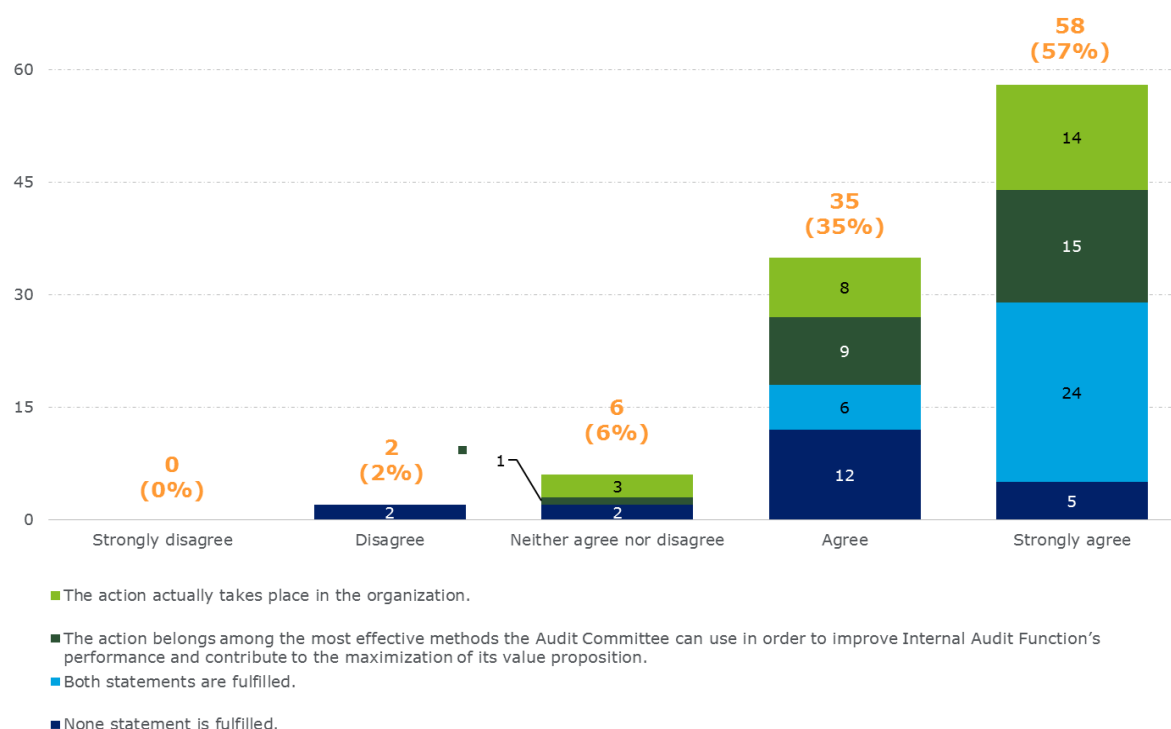
### Statement 11

*The Audit Committee should devote adequate time in assessing the risk assessment and risk-based audit plan delivered by the Internal Audit Function.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	0	0,00%	0,00%
<b><i>Disagree</i></b>	2	1,98%	1,98%
<b><i>Neither agree nor disagree</i></b>	6	5,94%	7,92%
<b><i>Agree</i></b>	35	34,65%	42,57%
<b><i>Strongly agree</i></b>	58	57,43%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



### Exhibit 16

As it is depicted above, the majority of the responders, thus 57%, strongly agree with the statement. According to the Standard 1110 – Organizational Independence of the International Standards for the Professional Practice of Internal Auditing, examples of functional reporting to the board involve the board approving the risk based internal audit plan, which is usually delegated to the AC, as a best practice. However, it is worth mentioning that the results of the survey indicated that according to 46% of the total responders this action is not actually taking place in their organization.

### **Statement 12**

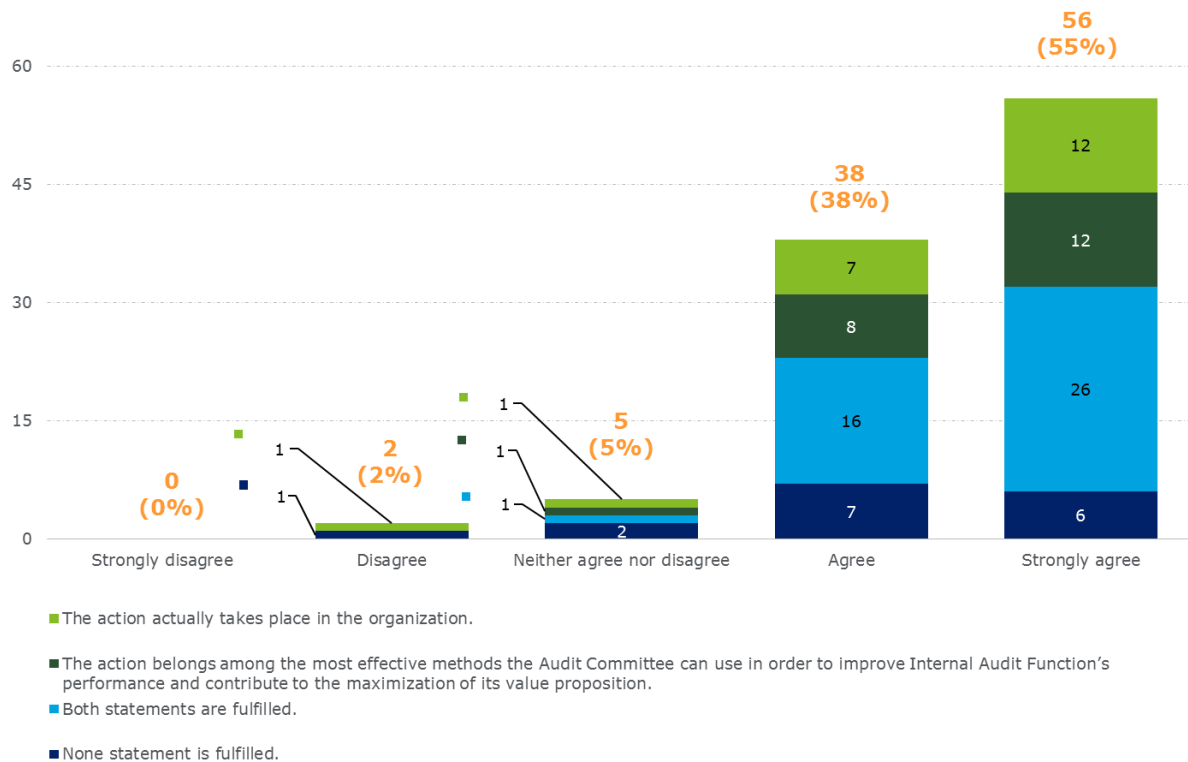
*The Audit Committee should provide feedback to the Internal Audit Function on the adequacy of the delivered risk assessment and risk-based audit plan and its alignment with stakeholder expectations as well.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i><b>Answer Choice</b></i>	<i><b>Frequency</b></i>	<i><b>%</b></i>	<i><b>Cumulative %</b></i>
<i><b>Strongly disagree</b></i>	0	0,00%	0,00%
<i><b>Disagree</b></i>	2	1,98%	1,98%
<i><b>Neither agree nor disagree</b></i>	5	4,95%	6,93%
<i><b>Agree</b></i>	38	37,62%	44,55%
<i><b>Strongly agree</b></i>	56	55,45%	100%
<i><b>Total</b></i>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:





**Exhibit 17**

As it is depicted above, the majority of the responders, thus 55%, strongly agree with the statement. However, it is worth mentioning that, upon relevant calculations, according to the 37% of the responders the AC does not provide feedback to the IAF. Therefore, since the majority of the responders strongly agrees that this action will have positive influence on the quality of the internal audit operations, the AC should focus on the design and implementation of relevant procedures.

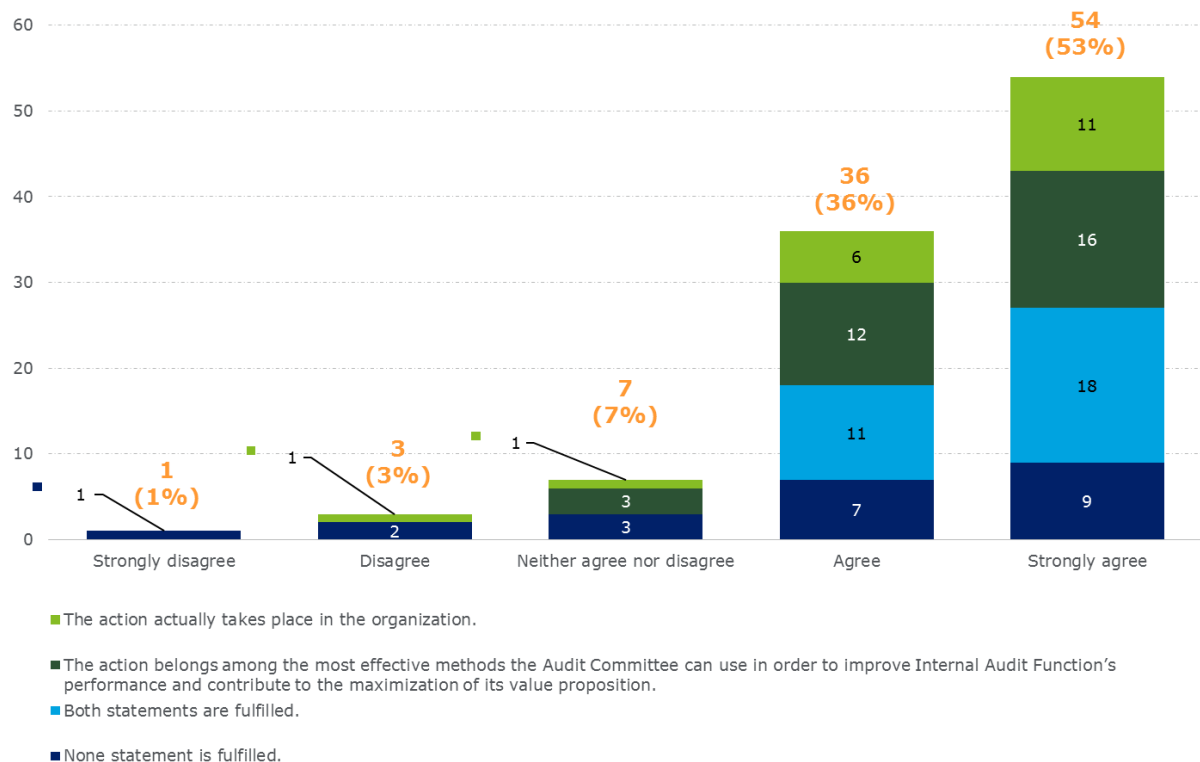
### **Statement 13**

*The Audit Committee should devote adequate time in assessing sufficiency and qualifications of Internal Audit Function's resources (human, financial and material).*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<i>Strongly disagree</i>	1	0,99%	0,99%
<i>Disagree</i>	3	2,97%	3,96%
<i>Neither agree nor disagree</i>	7	6,93%	10,89%
<i>Agree</i>	36	35,64%	46,53%
<i>Strongly agree</i>	54	53,47%	100%
<i>Total</i>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



**Exhibit 18**

As it is depicted above, the majority of the responders, thus 53%, strongly agree with the statement. However, it is worth mentioning that, upon relevant calculations, according to the 52% of the responders, the AC does not carry out this action and 41% of them do not include it among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition. Therefore, since the majority of the responders strongly agrees that this action will have positive influence on the quality of the internal audit operations, the AC should focus on the design and implementation of relevant procedures.

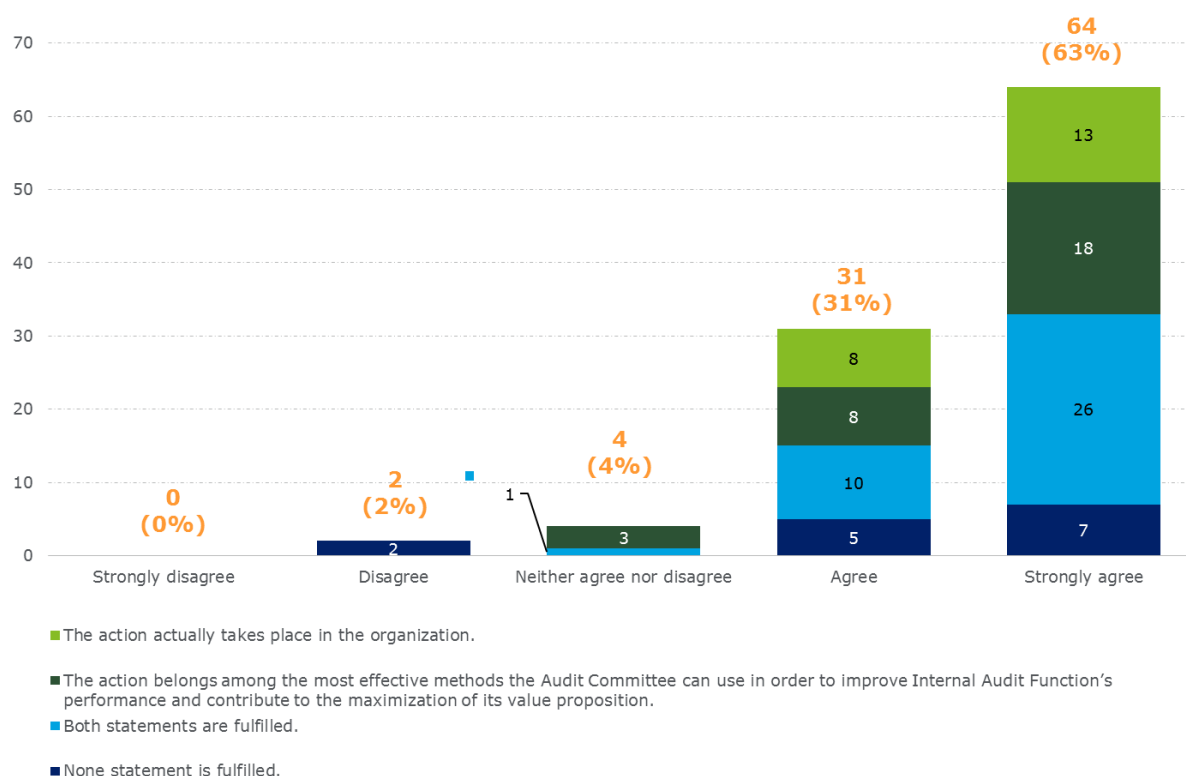
#### **Statement 14**

*The Audit Committee should monitor and periodically assess the quality and effectiveness of the Internal Audit Function.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	0	0,00%	0,00%
<b><i>Disagree</i></b>	2	1,98%	1,98%
<b><i>Neither agree nor disagree</i></b>	4	3,96%	5,94%
<b><i>Agree</i></b>	31	30,69%	36,63%
<b><i>Strongly agree</i></b>	64	63,37%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



#### Exhibit 19

As it is depicted above, the majority of the responders, thus 63%, strongly agree with the statement. The following conclusions worth mentioning:

- 58 of the 101 responders declared that this action actually takes place in their organization
- 66 of the 101 responders declared that this action belongs among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition.

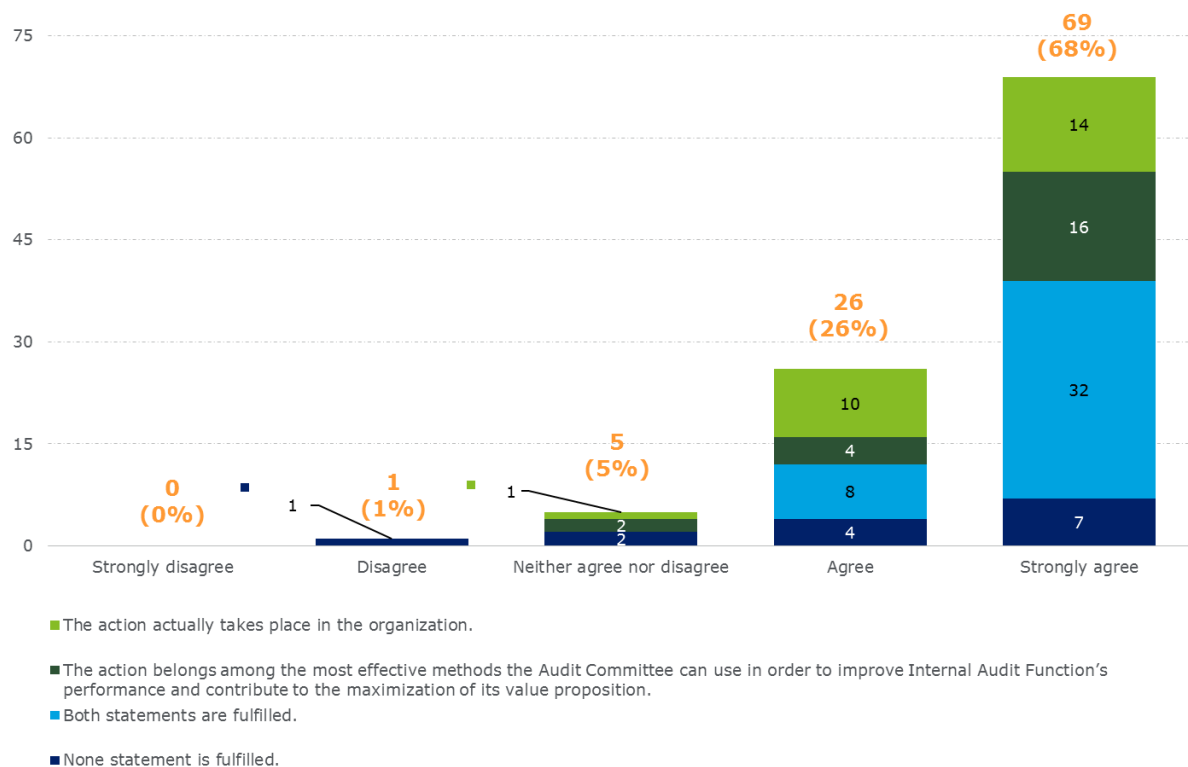
### **Statement 15**

*The composition of the Audit Committee (members' independence and expertise) is of great importance and affects Internal Audit Function's independence, objectivity and effectiveness. Therefore, due consideration should be given.*

The answers of the 101 responders are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	0	0,00%	0,00%
<b><i>Disagree</i></b>	1	0,99%	0,99%
<b><i>Neither agree nor disagree</i></b>	5	4,95%	5,94%
<b><i>Agree</i></b>	26	25,74%	31,68%
<b><i>Strongly agree</i></b>	69	68,32%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The above results along with the second part of the survey are presented through the stacked column chart below:



### **Exhibit 20**

As it is depicted above, the majority of the responders, thus 68%, strongly agree with the statement. However, it is worth mentioning that, upon relevant calculations, according to the 36% of the responders, the AC does not pay due consideration on the composition of the AC

and 39% of them do not include it among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition. Therefore, since the majority of the responders strongly agrees that this action will have positive influence on the quality of the internal audit operations, the respective authorities could pay more attention on this area.

### **Overall**

At the end of the survey, a total perception of the AC's contribution to IAF's success was requested to be given by the responders. Specifically, the responders were asked to express their overall agreement or disagreement regarding whether the AC can contribute to IAF's success, as well as to evaluate the level of influence on the quality of the internal audit operations from the cooperation of the IAF and the AC. For this question, a five-point Likert scale with the following level choices was created: None, Insignificant, Medium, Significant, and Very Strong.

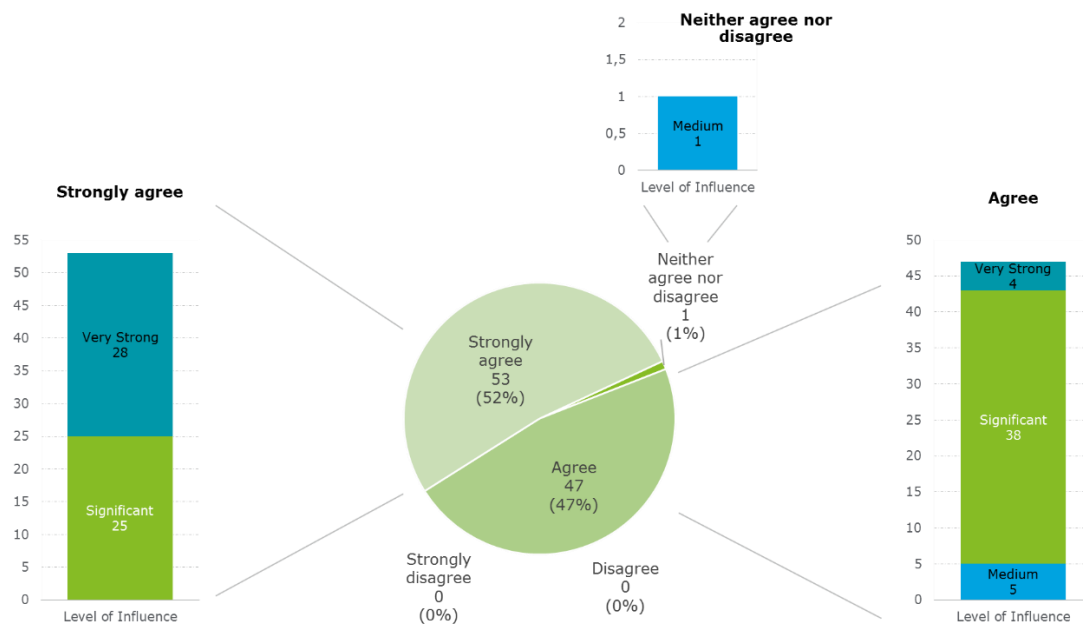
The answers of the 101 responders regarding the first part as described above are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>Strongly disagree</i></b>	0	0%	0%
<b><i>Disagree</i></b>	0	0%	0%
<b><i>Neither agree nor disagree</i></b>	1	0,99%	0,99%
<b><i>Agree</i></b>	47	46,53%	47,52%
<b><i>Strongly agree</i></b>	53	52,48%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

The answers of the 101 responders regarding the level of influence as described above are allocated between the five-point Likert scale according to the following table:

<i>Answer Choice</i>	<i>Frequency</i>	<i>%</i>	<i>Cumulative %</i>
<b><i>None</i></b>	0	0,00%	0,00%
<b><i>Insignificant</i></b>	0	0,00%	0,00%
<b><i>Medium</i></b>	6	5,94%	5,94%
<b><i>Significant</i></b>	63	62,38%	68,32%
<b><i>Very Strong</i></b>	32	31,68%	100%
<b><i>Total</i></b>	<b>101</b>	<b>100%</b>	

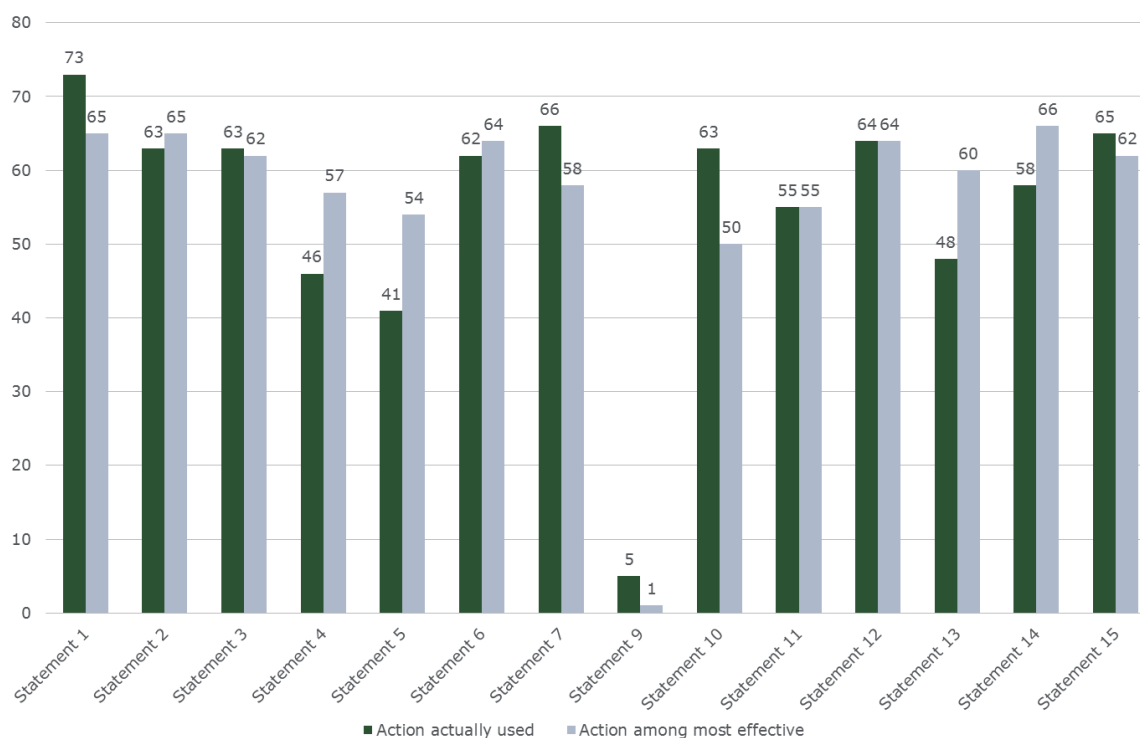
The above results are presented through the combination of a pie chart and stacked column one below:



**Exhibit 21**

As it is depicted above, almost total responders, either agree (47%) or strongly agree (52%) that the AC contribute to IAF's success, which consists one of the two pillars of the current dissertation thesis. Moreover, the majority of the responders, thus 62%, evaluate the level of influence on the increase of the quality of the internal audit operations from the cooperation of the IAF and the AC as Significant. Therefore, the AC should adopt, maintain and update its mechanisms regarding its contribution in IAF's success.

According to the answers of the 101 responders, the allocation and comparison of both the most actually used actions in the organization and the most effective ones is displayed below (Statement 8 is not included since it is not applicable in this kind of analysis):



**Exhibit 22**

As it is depicted above, the three actions that are located at the top and at the bottom of the most frequently answered that are actually used according to the survey are the following:

Most used	Less used
<p><b>Statement 1:</b> The Audit Committee should take care of elevating Chief Audit Executive's and Internal Audit Function's stature and fostering its independence within the organization (e.g. through appropriate reporting lines, regular presence in appropriate board or board committee meetings etc.).</p>	<p><b>Statement 9:</b> The Audit Committee should perform a communications quality assessment between Audit Committee and Internal Audit Function.</p>
<p><b>Statement 7:</b> The Audit Committee should hold private meetings with the Chief Audit Executive in order to allow more open and candid discussion and maximize benefits for both parts (Audit Committee and Internal Audit Function).</p>	<p><b>Statement 5:</b> The Audit Committee should identify opportunities where the Internal Audit Function can add the most value through performing advisory work and not be limited to assurance work.</p>
<p><b>Statement 15:</b> The composition of the Audit Committee (members' independence and expertise) is of great importance and affects Internal Audit Function's independence, objectivity and effectiveness. Therefore, due consideration should be given.</p>	<p><b>Statement 4:</b> The Audit Committee should encourage internal auditors to think beyond the scope of the audit plan and remind their Chief Audit Executive that audits should not be a check-the-box exercise.</p>

Similarly, the three actions that are located at the top and at the bottom of the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition according to the survey are the following:

Most effective	Less effective
<b><u>Statement 14:</u></b> The Audit Committee should monitor and periodically assess the quality and effectiveness of the Internal Audit Function.	<b><u>Statement 9:</u></b> The Audit Committee should perform a communications quality assessment between Audit Committee and Internal Audit Function.
<b><u>Statement 1:</u></b> The Audit Committee should take care of elevating Chief Audit Executive's and Internal Audit Function's stature and fostering its independence within the organization (e.g. through appropriate reporting lines, regular presence in appropriate board or board committee meetings etc.).	<b><u>Statement 10:</u></b> Delivering the risk assessment and risk-based audit plan conducted by the Internal Audit Function to the Audit Committee will have positive influence on the quality of the internal audit operations.
<b><u>Statement 2:</u></b> The Audit Committee should promote Internal Audit mission and keep it aligned with the organization's strategy, empowering the Chief Audit Executive to bring views and insights to stakeholders on risks to achieving objectives and executing strategy.	<b><u>Statement 5:</u></b> The Audit Committee should identify opportunities where the Internal Audit Function can add the most value through performing advisory work and not be limited to assurance work.

Moreover, from the analysis of the above results, we identified the major deviations in responses (difference between responses > 10) between the actual implementation of a particular statement and its effectiveness. More specifically:

- **Statement 5:** Although 54 out of 101 responders believe that the identification by the AC of opportunities where the IAF can add the most value through performing advisory work belongs among the most effective methods, only 41 out of 101 responders responded that this action actually takes place in their organization.
- **Statement 13:** Although 60 out of 101 responders believe that the dedication of adequate time by the AC in assessing sufficiency and qualifications of IAF's resources belongs among the most effective methods, only 48 out of 101 responders responded that this action actually takes place in their organization.
- **Statement 10:** Although 63 out of 101 responders actually deliver the risk assessment and risk-based audit plan conducted by the IAF to the AC, only 50 out of 101 responders



believe that this action compared to the others belongs among the most effective methods, which will have positive influence on the quality of the internal audit operations.

At the end of the survey, the responders were provided with the ability to indicate other possible actions the AC could take in order to contribute to IAF's success. Below, we quote the methods recorded in this section that are not related to those already examined throughout the dissertation thesis:

1. By supporting the offer of all the necessary tools in order to create a solid internal audit mechanism.
2. By standing side by side in case of unacceptable risk acceptance by management.
3. By eliminating audit restrictions.
4. By raising awareness and assure training, qualifications and resources.
5. By taking them more seriously and have them better salaried.
6. By increasing transparency in communication with management.
7. By providing feedback to the BoD, which should be taken into consideration.

## CONCLUSIONS & POLICY PROPOSALS

Based on the above two sections, the basic theoretical and empirical conclusions of the whole thesis are presented below.

Internal audit is one of the most important functions of an organization, because it is considered as a valuable assurance, advice and insight provider. In the effort to get out the best of the IAF, the AC plays a vital role, which not only should be retained, but also should be enhanced.

From the theoretical point of view, maintaining an effective relationship with the AC is a key element of success for IAF. The AC is considered essential for building and supporting a truly independent and competent IAF. Open and frequent communications are essential to this process. Its role is even important when considering that the AC acts as a link between the IAF and the corporate governance mechanisms. Overall, the AC is a key player in ensuring that the IAF demonstrates high performance, is effective, and is viewed as an important part of the organization.

With the conducted empirical research on a sample of 101 responders, including internal auditors and AC members, the initial hypothesis of whether and how the AC can contribute to the IAF's success was tested. The performed analysis shows that the AC activities indeed positively influence the success of the IAF in an organization.

Based on the results of the survey performed, it was concluded that the majority of internal auditors and AC members strongly agree that the AC contributes to IAF's success at a significant level. The empirical analysis also examined the ways through which the AC can contribute in IAF's success. Moreover, it concluded which of these actions actually take place in the organizations of the responders and which are classified among the most effective methods the AC can use in order to improve IAF's performance and contribute to the maximization of its value proposition. The contributing action actually taking place indicated by the majority of the responders is that of elevating CAE's and IAF's stature and fostering their independence within the organization. The action considered as the most effective compared to the others is the monitoring and periodical assessment of the quality and effectiveness of the IAF.

Overall, the results of both the theoretical research and the empirical analysis highlight the necessity of the effective and direct collaboration between the AC and the IAF. The AC can adopt several ways towards this direction in order to contribute in IAF's success. Except from empowering CAE's and IAF's stature and periodically assessing the quality and effectiveness of the IAF as abovementioned, other actions could also enhance the AC's important

contribution. Within this context, the AC should promote IAF mission and keep it aligned with the organization's strategy, empowering the CAE to bring views and insights to stakeholders on risks to achieving objectives and executing strategy. In addition, it is of equal importance to create effective communication channels and retain frequent communication with the IAF, provide feedback on the adequacy of the risk-based audit plan and its alignment with stakeholder expectations, secure proper management attention, support the resolution of internal audit findings, and devote adequate time in assessing sufficiency and qualifications of IAF's resources. Finally yet importantly, it is acknowledged that the composition of the AC, both in terms of members' independence and expertise, is of great importance and affects IAF's independence, objectivity and effectiveness. Therefore, due consideration should be given in the selection process.

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## APPENDIX

### Questionnaire



**National and Kapodistrian University of Athens**  
**Department of Economics**  
**Faculty of Economics and Political Sciences**  
**Master in Business Administration – Internal Audit**

<b>Student</b>	<b>Krestou Efi</b>
<b>Email:</b>	<b>efiekrestou@yahoo.gr</b>

Dear Sirs / Madams,

The purpose of this master thesis is to analyze the role and the influence of the Audit Committee on the internal audit operations in terms of achieving the roles and tasks of modern internal auditing in the system of corporate governance. In other words, the master thesis will try to analyze the possible influence of the Audit Committee in the efficiency and quality improvement of the Internal Audit Function.

This questionnaire is addressed only to Audit Committee Members and Internal Auditors. It is anonymous and the analysis of results will be held collectively and exclusively for the purposes of the master thesis. Your opinion and experience will greatly contribute to conduct this thesis and draw substantial conclusions.

You are kindly requested to specify your level of agreement or disagreement on a symmetric agree-disagree five-point Likert scale for a series of statements under the following format:

<b>Scale</b>	<b>Rating</b>
<b>1</b>	Strongly disagree
<b>2</b>	Disagree
<b>3</b>	Neither agree nor disagree
<b>4</b>	Agree
<b>5</b>	Strongly agree

The first part of the survey consists of fifteen statements for which you are requested to express your level of agreement or disagreement, considering if these statements express an action through which the Audit Committee can contribute to the Internal Audit Function's success. The second part of the survey refers to a measurement of what is actually applied and an assessment of the effectiveness of the statements mentioned.

Thank you in advance for your valuable contribution to this research.

1. The Audit Committee should take care of elevating Chief Audit Executive's and Internal Audit Function's stature and fostering its independence within the organization (e.g. through appropriate reporting lines, regular presence in appropriate board or board committee meetings etc.).

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

2. The Audit Committee should promote Internal Audit mission and keep it aligned with the organization's strategy, empowering the Chief Audit Executive to bring views and insights to stakeholders on risks to achieving objectives and executing strategy.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

3. The Audit Committee should secure proper management attention and support the resolution of internal audit findings.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

4. The Audit Committee should encourage internal auditors to think beyond the scope of the audit plan and remind their Chief Audit Executive that audits should not be a check-the-box exercise.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

5. The Audit Committee should identify opportunities where the Internal Audit Function can add the most value through performing advisory work and not be limited to assurance work.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

6. The Audit Committee should create effective communication channels and retain frequent communication with the Internal Audit Function.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

7. The Audit Committee should hold private meetings with the Chief Audit Executive in order to allow more open and candid discussion and maximize benefits for both parts (Audit Committee and Internal Audit Function).

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

8. The greater the quality of communication and interaction between the Audit Committee and the Internal Audit Function, the greater the influence in terms of increasing efficiency of the internal audit operations.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

9. The Audit Committee should perform a communications quality assessment between Audit Committee and Internal Audit Function.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

10. Delivering the risk assessment and risk-based audit plan conducted by the Internal Audit Function to the Audit Committee will have positive influence on the quality of the internal audit operations.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

11. The Audit Committee should devote adequate time in assessing the risk assessment and risk-based audit plan delivered by the Internal Audit Function.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

12. The Audit Committee should provide feedback to the Internal Audit Function on the adequacy of the delivered risk assessment and risk-based audit plan and its alignment with stakeholder expectations as well.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

13. The Audit Committee should devote adequate time in assessing sufficiency and qualifications of Internal Audit Function's resources (human, financial and material).

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

14. The Audit Committee should monitor and periodically assess the quality and effectiveness of the Internal Audit Function.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

15. The composition of the Audit Committee (members' independence and expertise) is of great importance and affects Internal Audit Function's independence, objectivity and effectiveness. Therefore, due consideration should be given.

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*

16. Which of the above actions actually take place in your organization?

17. In your opinion, which of the above actions illustrate the most effective methods the Audit Committee can use in order to improve Internal Audit Function's performance and contribute to the maximization of its value proposition?

18. Overall, at your opinion, can the Audit Committee contribute to Internal Audit's success?

*Strongly disagree - Disagree – Neither agree nor disagree – Agree – Strongly agree*



19. At your opinion, which is the level of influence on the increase of the quality of the internal audit operations from the cooperation of the Internal Audit Function and the Audit Committee?

*None – Insignificant – Medium – Significant – Very Strong*

20. Please indicate other actions the Audit Committee could take in order to contribute to Internal Audit Function's success.

### **Survey Demographics**

- Are you a member of Audit Committee?

*Yes - No*

- Are you the Audit Committee Chairman?

*Yes - No*

- Are you an internal auditor?

*Yes - No*

- Are you the Chief Audit Executive?

*Yes - No*

- Which is the organization's primary industry?

Banking/Financial Services

Insurance

Auditing/Consulting

Industrial Manufacturing/Chemicals

Retail/Commercial Goods

Energy/Natural Resources

Technology/Software

Healthcare/Pharmaceuticals

Transportation

Real Estate

Building/Construction

Communications/Media

Hotels/Tourism

Automobile

Education

Telecommunications

Shipping

Public Authorities

Other

## **AUTHOR DECLARATION**

"I hereby declare that, in accordance with article 8 of Law 1599/1986 and article 2.4.6 par. 3 of Law 1256/1982, this thesis/dissertation is solely a product of personal work and does not infringe any intellectual property rights of third parties and is not the product of a partial or total plagiarism, and the sources used are strictly limited to the bibliographic references."