

IIA Dallas Chapter
2002/2003 Research Committee Paper
Future of Internal Audit Survey

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I. Introduction

The rash of high-profile accounting scandals has focused attention on the accounting profession as never before. The financial turpitude of corporate giants like Enron, WorldCom, Tyco and others has caused a credibility crisis for corporate governance and the accounting profession. Self-regulation is being questioned, new regulatory and legislative reforms have been passed, and even more are being considered. The integrity of the accounting profession is seen as questionable.

One major response was Congress' passage of the Sarbanes-Oxley Act (SOX) which imposes sweeping new oversight requirements on executives, boards of directors, accounting firms, and lawyers of publicly held companies. The Act has provisions banning direct loans to officers and directors, imposes certain accounting and auditing procedures, and requires broad corporate disclosures. It also has a whistleblowing provision, with accompanying civil and criminal penalties. ¹ According to the American Institute of Certified Public Accountants (AICPA), the Sarbanes-Oxley Act of 2002 is "the most significant legislation affecting the accounting profession since 1933." ²

The Sarbanes-Oxley Act (Public Law 107-204) impacts not just the large accounting firms, but also any CPA actively working as an auditor of, or for, a publicly traded company, or any CPA working in the financial management area of a public company. In addition, the Act creates a five-member Public Company Accounting Oversight Board (PCAOB), which has the authority to set and enforce auditing, attestation, quality control and ethics. The ramifications of some of the provisions in

¹ King, G. Robert, The Metropolitan Corporate Counsel.

Sarbanes-Oxley will become known only as the Securities and Exchange Commission and the new PCAOB begin implementation.³

These events have come together bringing a new growth cycle to the accounting profession and to the audit function specifically. The major corporate collapses have increased focus on the assurance function; regulators and investors are now insisting that publicly traded companies reorder some things. There is a new social construction in progress. In a word, CHANGE. Change is not just an event, but a process of living and growing. Organizations (and professions) are socially constructed organisms. The environment of organizations includes customers, government regulation, competition, investors, and technology. Organizations must constantly be aware of internal and external forces at work. Only companies that stay connected to important changes in their environment will succeed.⁴

The accounting function has been around for thousands of years. The earliest records ever audited were Babylonian clay tablets about 5000 years ago. The world's first auditor may have created the tiny marks on the clay tablets next to inventory entries. By the time of the Middle Kingdom of the Nile, the Pharaoh's deputy was overseeing the storage of grains. Auditing was a matter of simply re-performing the work of others. Systems were very simple, and auditing meant observing, counting and double-checking records. Auditing did not change much for nearly 5000 years! In some countries where modern internal auditing is just now being introduced, re-performance is still the mainstay.⁵

² The CPA Letter, September 2002, Vol. 82 No. 7.

³ Ibid

⁴ McNamee, David, "Change and the Nature of Auditing," Internal Auditor, Dec. 1992.

Business organizations and systems continued to change and grow in size and complexity throughout the Industrial Age. Advances in systems thinking, technology and the massive organization of human enterprise in response to World War II triggered a dramatic change in the practice of auditing. Evolving from the old audit method of using a checker checking a checker, Victor Brink and others advanced the concept of evaluating the organization's internal control system as the modern approach to the practice of internal auditing. Testing compliance with these controls was more efficient for large-scale enterprises. Brink, along with Robert B. Milne and John B. Thurston, founded the Institute of Internal Auditors in 1941.⁶ This was an important milestone for the profession.

The Institute of Internal Auditors (IIA) that was formed in 1941 in New York City had the specific purposes of: To cultivate, promote, disseminate knowledge and information concerning internal auditing and subjects related thereto; to establish and maintain high standards of integrity, honor, and character among internal auditors; to furnish information regarding internal auditing and the practice and methods thereof to its members, and of other persons interested therein, and to the general public; to cause the publication of articles relating to internal auditing and practices and methods thereof; to establish and maintain a library and reading rooms, meeting rooms and social rooms for the use of its members; to promote social intercourse among its members; and to do any and all things which shall be lawful and appropriated in furtherance of any of the purposes herein before expressed.⁷

⁵ McNamee, *ibid.*

⁶ McNamee, *ibid.*

⁷ Institute of Internal Auditors, 1941-A History, www.theiia.org.

This modern practice of auditing internal control systems supplanted the prior technique of reperforming every step. The profession has continued to perfect understanding of systems. Today, the use of sophisticated risk modeling, statistical sampling, computer assisted audit techniques, and customer-focused total quality management is part of the audit process.

Table of Significant Events

1494	<ul style="list-style-type: none"> •Pacioli and double-entry bookkeeping
Mid 19 th century	<ul style="list-style-type: none"> •Cooper Brothers establish accounting practice in England.
1887	<ul style="list-style-type: none"> •Predecessor of American Institute of CPA's (AICPA) formed.
1897	<ul style="list-style-type: none"> •Standardized accounting test created.
1920's	<ul style="list-style-type: none"> •Stock market collapse, financial scandals, and the Great Depression.
1930's	<ul style="list-style-type: none"> •GAAP established. •Passage of the 1933 and 1934 Securities Acts to help regulated U.S. securities markets. •Securities and Exchange Commission founded to ensure "full and fair disclosure." •Congress encharges accounting profession with responsibility for auditing public companies.
1940's	<ul style="list-style-type: none"> •Institute of Internal Auditors formed. •AICPA develops Generally Accepted Auditing Standards (GAAS).
1970's	<ul style="list-style-type: none"> •Federal government sets up Financial Accounting Standards Board (FASB) to oversee accountants. •Congress passes the Foreign Corrupt Practices Act mandating a system of internal accounting controls.
1980's	<ul style="list-style-type: none"> •Advertising ban lifted by Federal Trade Commission. •Globalization and deregulation lead to more complex and riskier financing. •Savings and Loan failures. •Consulting by accounting firms becomes popular.
1990's	<ul style="list-style-type: none"> •Big 8 public accounting firms become the Big 5. •Big 5 start consulting divisions. •COSO report from the Treadway Committee. •Outsourcing of internal audit function.
2000's	<ul style="list-style-type: none"> •Corporate scandals; Enron, WorldCom, Tyco, •Sarbanes-Oxley Act passed. •Big 5 becomes the Final Four

Today, the mission statement of the Institute of Internal Auditors (from their official website www.theiia.org) defines the profession of internal auditing as follows: 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.⁸

⁸ McNamee, *ibid.*

II. Purpose of the Study

Change, such as SOX, generally appears only *after* there is a recognition that conditions are in some state of crisis. In effect, SOX is an externally driven “force” that impacts not only public companies, but all areas of the accounting professions. In short, the profession will have to change and adapt in order to maintain credibility and survive in its current state. However, change does not happen easily or quickly. A major change, such as SOX, requires several phases, including but not limited to: interpretation, understanding, assimilation, planning and eventually implementation.

The purpose of this paper was to assess and describe the attitudes and actions of companies located in the North Central Texas area concerning both the present and future changes related to the political, economic and regulatory climate facing the internal audit function.

III. Design Methodology

Research is the process of systematically obtaining accurate answers to significant and pertinent questions by use of the scientific method of gathering and interpreting information.⁹ The design of a study begins with the selection of a topic and a paradigm. Paradigms help us understand phenomena: The basic research paradigms are quantitative, qualitative and exploratory. A quantitative study is an inquiry into a problem, based on testing a theory composed of variables, measured with numbers, and analyzed with statistical procedures, in order to determine whether the predictive generalizations of the theory hold true.¹⁰ In line with the purpose of this study, the quantitative method of a cross-sectional survey was chosen with questionnaires and structured interviews for data collection. This study, while using the quantitative tool of a survey, is primarily exploratory in nature.

Accordingly, the survey methodology was used as the instrument to collect data. The cross-sectional (the data is collected at one point in time vs. longitudinal, which is over a duration of time) survey is a primary tool of the quantitative paradigm, but is not limited to that paradigm. The purpose of the survey design was to provide a quantitative or numeric description of some fraction of the population - the sample – through the data collection process of asking questions of people (Fowler, 1988). This data collection, in turn, enabled some generalization of the findings from a sample of responses. Inferences were made about some characteristic, attitude, or behavior of this population.¹¹

⁹ Balsley, Howard L. and Vernon T. Clover, Research for Business Decision: Business Research Methods, 4th edition, Publishing Horizons, Columbus, Ohio, p. 1-2.

¹⁰ Creswell, John W. Research design: Qualitative & Quantitative Approaches, Sage Publications, Thousand Oaks, California, page 2-3.

¹¹ Ibid.

A survey design was the preferred type of data collection for this study for several reasons: economy of the design, the rapid turnaround in data collection, and the ability to identify attributes of a population from a small group of companies (Fowler, 1988), (Babbie, 1990), (Sudman and Bradburn, 1986), and (Fin and Koscoff, 1985). The form of data collection was done through mailings to respondents, face-to-face interviews, and telephone. The rationale for these collection procedures was based on costs, availability, convenience and time.

The survey population consisted of a variety of industries, ranging from less than 5,000 to greater than 50,000 employees worldwide, and with revenues from \$1 million to \$20 billion or more. The survey had a total of fifteen (15) respondents, and the survey process was basically a single-stage sample, but with a small test group employed to rate the survey instrument before it was sent out the sample population.

The sample is a purposive or convenience sample, due to the constraints of time and cost. The sample consists primarily of a contacts network, composed of the members of the research committee. It is important to note that this study is not based on a random sample, wherein each entity has an equal probability of being sampled. A random sample is, of course, more rigorous, but due to the time and financial constraints such randomization was not possible.

The survey instrument **is a self-designed instrument**, developed by the Dallas IIA Chapter's Research Committee for 2002-2003. The complete survey instrument follows and the major sections of the survey include:

1. Background (demographic information).
2. Rating Guidelines
3. Future Role of Audit Committee.
4. Future Role of Internal Audit-Organization.
5. Future Role of Internal Audit-General Responsibilities.
6. Future Role of Internal Audit in the Financial Reporting.
7. Future Role of Corporate Governance.
8. Future Role of the External Auditing Firm.

IV. Survey Instrument

Table of Participant Demographics

Industry		Chief Audit Executive Title	
•Bank/Financial	2	•Manager	0
•Communication	0	•Vice President	4
•Government	2	•Director	9
•Manufacturing	2	•Chief Auditor	0
•Oil & Gas	0	•General Auditor	1
•Services	1	•Other	1
•Consumer Business	2		
•Other	6		

Company Size by Employees		Internal Audit Staff Size	
•Less than 5,000	0	•1 – 10	7
•5,001 to 15,000	8	•11 – 25	3
•5,001 to 30,000	1	•26 – 50	2
•30,001 to 50,000	1	•51 and more	2
•50,001 or more	5		

Company Size by Revenue (US \$ Billions)		Publicly Traded	
•Less than \$1	0	•Publicly Traded	11
•\$1 to \$5	9	•Private Company	
•\$5 to \$10	1	•Other	4
•\$10 to \$20	1		
•\$20 or more	4		

Rating Guidelines
1 – Very Unlikely
2 – Unlikely
3 – Neither Likely or Unlikely
4 – Likely
5 – Very Likely
N/A - Not Applicable or Unsure

**Insert
Survey
Instrument
Here**

V. Survey Results

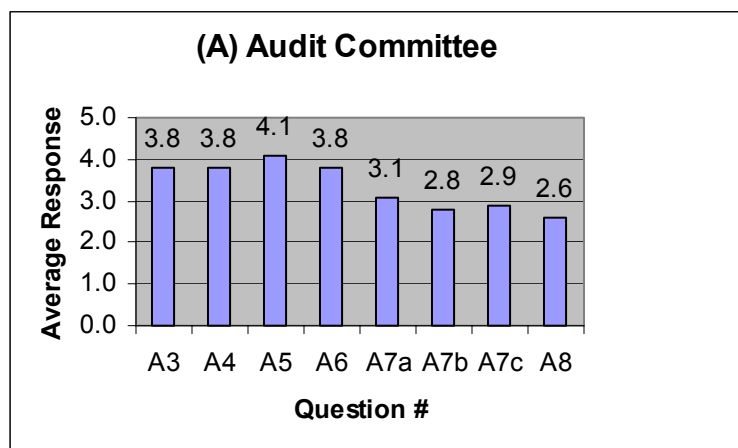
Question	Average Score	Combined Unlikely	Combined Likely	Usable Responses
A1	N/A	N/A	N/A	N/A
A2	N/A	N/A	N/A	N/A
A3	3.8	3	9	12
A4	3.8	4	11	15
A5	4.1	1	12	14
A6	3.8	1	8	12
A7a	3.1	3	3	12
A7b	2.8	5	1	14
A7c	2.9	4	1	14
A8	2.6	4	2	9
B1	N/A			
B2	2.9	3	2	7
B3a	3.6	2	4	7
B3b	2.7	6	4	10
B3c	1.9	9	2	11
B3d	1.9	8	2	11
B3e	1.7	8	1	9
B3f	1.1	7	0	7
B4	4.9	0	8	8
B5a	3.2	4	6	14
B5b	2.9	7	5	13
B5c	2.7	8	4	15
C1	3.7	3	7	15
C2	2.6	5	2	13
C3	4.8	0	8	8
C4	4.2	1	7	9
C5a	3.9	3	7	14
C5b	3.1	5	6	14
C5c	3.2	4	5	13
C6	2.9	5	6	14
C7	4.3	1	12	13
C8	2.9	6	7	14
C9	3.9	2	10	13

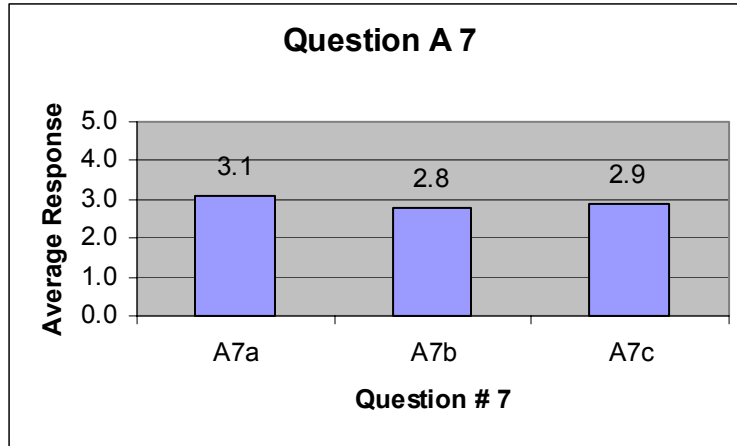
Question	Average Score	Combined Unlikely	Combined Likely	Usable Responses
D1	2.9	5	2	14
D2	2.9	4	3	13
D3	3.3	3	7	13
D4	2.7	5	9	14
D5	4.5	0	12	13
D6	3.6	4	9	14
E1a	3.9	0	9	14
E1b	3.8	1	7	12
E1c	3.3	2	4	8
E1d	4.2	0	12	13
E1e	3.8	2	7	12
E1f	3.9	2	9	14
E1g	3.9	2	9	14
E2	3.6	1	5	11
E3	4.1	1	11	14
F1	2.9	4	2	13
F2	3.5	2	6	11
F3	4.1	1	6	7
F4	3.5	5	6	11
F5	3.4	3	5	10
F6	4.3	1	8	9
F7	3.6	2	5	11
F8	4.1	1	6	9

VI. Observations Regarding the Survey Results

Part A: Future Role of the Audit Committee

This group of questions was intended to assess how the role of the Audit Committee might evolve due to the new forces at play in the external environment. The responses to questions 1 and 2 indicated that all the respondents have an audit committee and a charter detailing their responsibilities. Questions 3 through 6 responses indicated a significantly higher degree of commitment to corporate governance and oversight by the audit committee with increased participation and cooperation by the internal audit staff. Responses for questions 7a through 7c suggest a lack of certainty regarding the focus of the internal audit staff in the future. Question 7a responses seem to indicate some increased emphasis in the area of financial audits while 7b and 7c indicate little probability of increased compliance and operational audit procedures. Question 8 responses indicated an uncertainty or low probability that the audit committee membership would be changing.

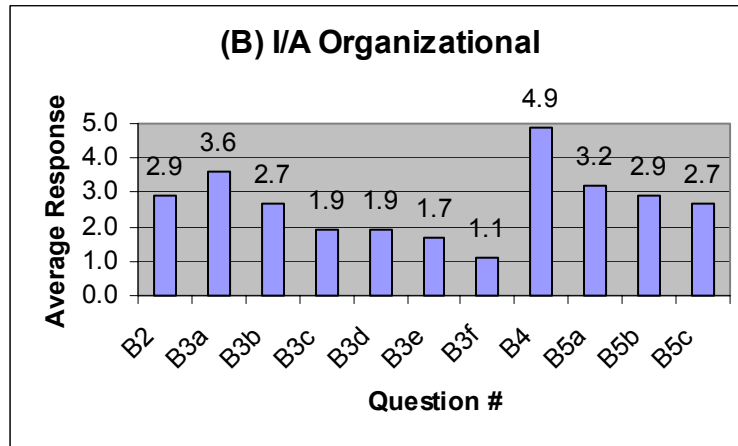




Part B: Future Role of Internal Audit-Organization

This section was meant to assess the potential future changes regarding internal audit’s functions at the organizational (structure) level. Question 1 responses indicated that all of the companies had an internal audit function in place. Question 2 indicated a mixed response in that some Internal Audit chiefs were already officers and the remainder were perhaps uncertain (since there were only 7 replies) if new legislation would result in them becoming an officer of the company. Question 3 deals with whom the audit department head will report to: Audit Committee, Legal Department, CEO, CFO, President or other. This question had an unusual response pattern.¹² This may be due to respondent’s most likely choices of Audit Committee and Legal Counsel virtually eliminating likely reporting to the CEO, CFO, President, or Other. However, average responses favored the internal audit head having reporting responsibility to the audit committee. Unrestricted access to the audit committee (Question 4) is something the departments either already have or the access will be enhanced as a result of recent legislation. Question 5a through 5c indicated a reaction to the changing role and/or

responsibilities of the internal audit function through training, staff increase, or certification requirements. Companies appear to be interested in providing more training with less emphasis on hiring of staff or requiring more certification.

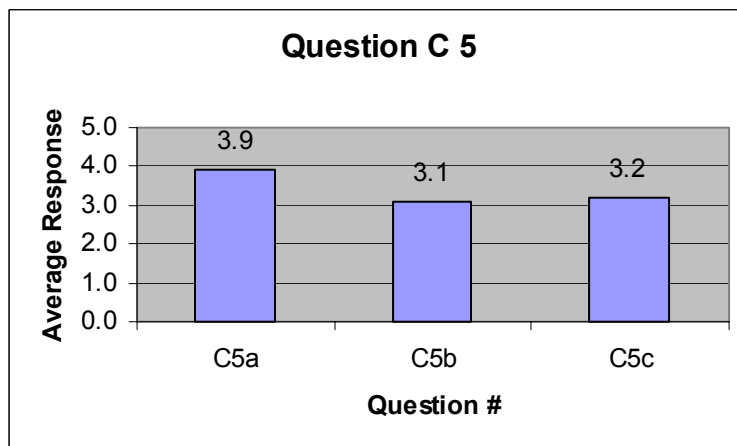
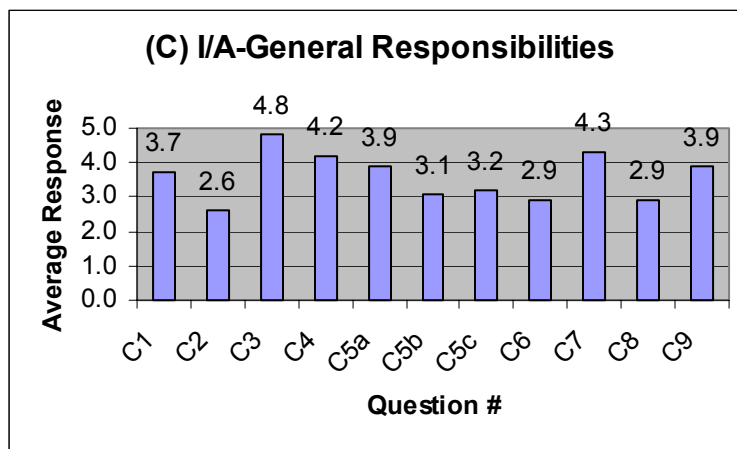


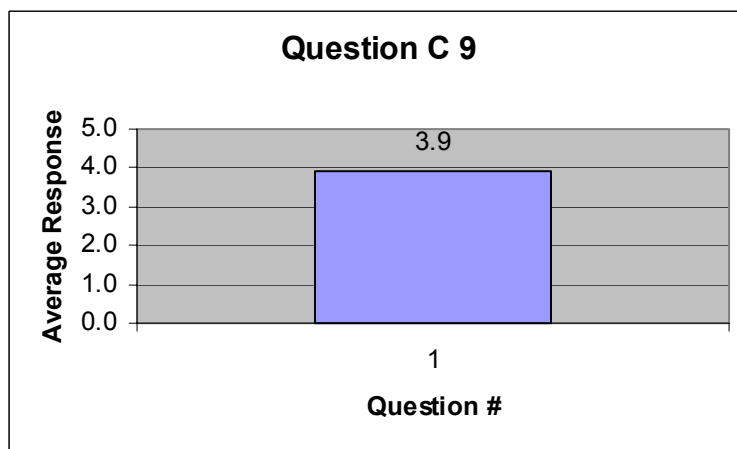
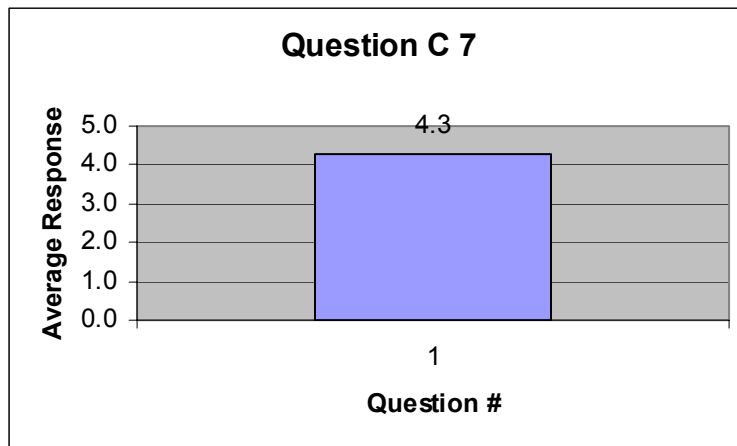
Part C: Future Role of Internal Audit-General Responsibilities

This set of questions focused on the possible changes in general responsibilities by the internal audit function. Increased communication between the audit committee and the internal audit function is definitely seen by the respondents, while companies appear to be comfortable with the current report format and distribution. Also, a solid commitment to a risk assessment approach to developing the audit plan appears to be a high priority along with approval of the audit plan by the audit committee. It appears that the internal audit function will focus more on financial audits, but to what extent remains in question. It is interesting to note that comparatively, there appears to be more of an emphasis on compliance and operational audit procedures from the internal audit perspective (questions 5b and 5c) than there was from the Audit Committee perspective (see questions 7b and 7c, Part A). That being said, responses seem to indicate that the

¹² The response to B3a-f could be a construct validity issue: See the table of Average Scores and Responses. The question structure could have been confusing to respondents.

amount of operational and compliance audits will not change significantly. Question 6 responses do not provide much indication that the level of assistance provided to external auditors from internal auditors will change significantly. The special reviews regarding corporate governance by the internal audit function also seems to be an extremely high priority for the respondents (Question 7). This and other questions seem to indicate the importance of corporate governance to the respondents. In addition, having the internal audit function render an assessment on the entity's overall control environment is also a high priority. Twelve of the thirteen usable responses (93%) indicated such an assessment was likely to be performed.

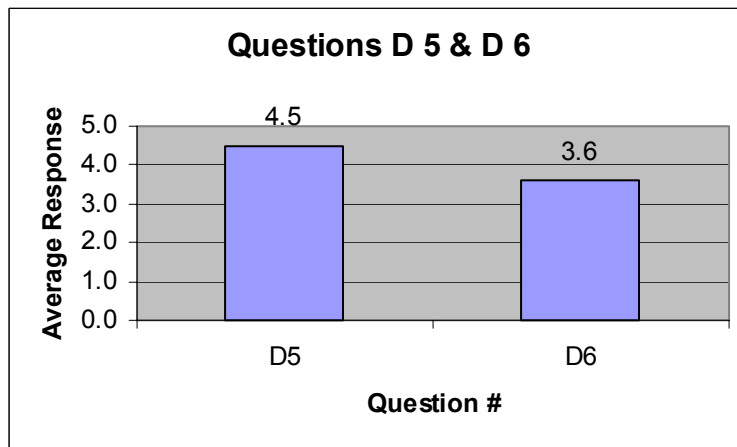
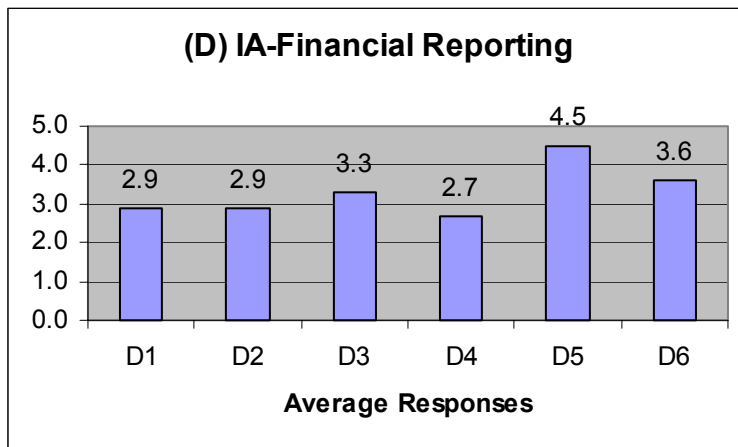




Part D: Future Role of Internal Audit in the Financial Reporting.

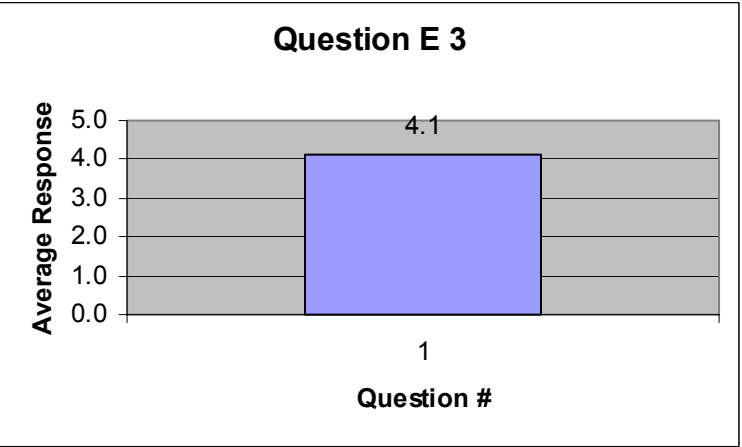
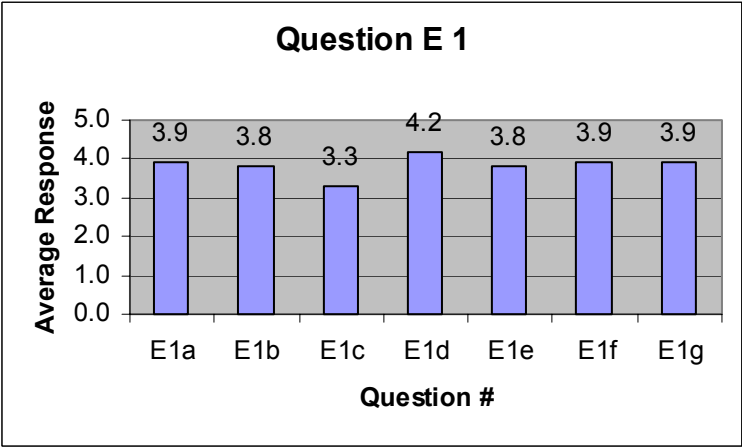
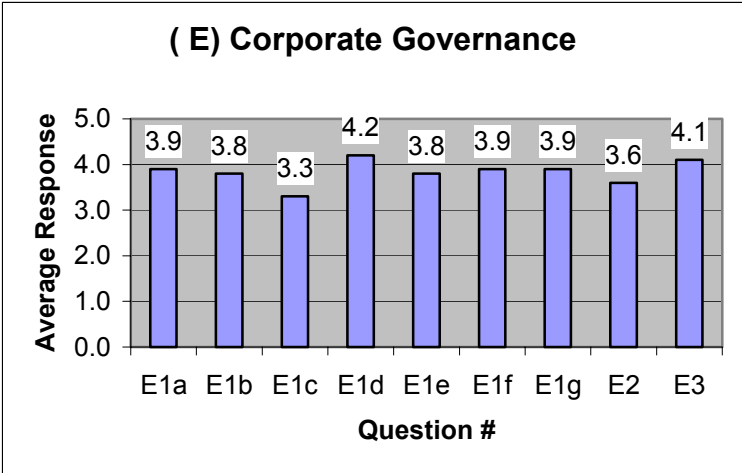
This section was concerned with changes in the internal audit function with respect to financial reporting. For the first two questions, the respondents appear to indicate that internal audit will not increase involvement in the actual financial reporting process itself or in the review of interim financial statements. However, Question 3, regarding differences between actual financial results and budgeted results, had a high combined likely average response that would indicate respondents feel internal audit will be involved with financial issues when financial results significantly differ from budgeted

or projected amounts. The responses to Question 5 indicated overwhelmingly that the internal audit function would be heavily involved with the control system and compliance surrounding the financial reporting process. Most interesting is Question 6 where a majority of respondents indicated that the internal audit function would increase its involvement in the judgments and estimates when they would have a significant effect on the financial statements. This is a critical notion in the fair presentation of financial position and results of operations, and to have the Internal Audit role expanded, demonstrates the importance of this function in dealing with a critical aspect of Sarbanes-Oxley.



Part E: Future Role of Corporate Governance

These questions assessed the respondent's feelings about the future of corporate governance in their organizations. Questions E1a through E1g are what would be expected given the current climate in the accounting and auditing disciplines. This seems self-evident given the focus on accounting and how it will acquit itself with the investing public in the Post-Enron era. However, it seemed surprising that five respondents were uncertain as to the establishment of a corporate governance committee as indicated by Question E2, but six did indicate the establishment of this type of committee was a likely development. It could be they already have one in place already and corporate governance and SOX are not the driving forces, at the moment. Perhaps the uncertain ones were just uncertain as to how the administration of the increased focus on corporate governance would take place in their organization. The responses to E3 support that internal audit will play a much more important role in assisting management in their strengthening of risk management, internal controls, and corporate governance. This should be focused upon as positive support for the critical role Internal Audit will play as we move towards greater corporate accountability. It should be noted that of all the sections, The Future Role of Corporate Governance had the highest average score on all questions of 3.83, with a Combined Likely to Combined Unlikely score of 73 to 12.



Part F: Future Role of External Auditing Firm

Part F deals with the specific provisions of the Sarbanes Oxley Act. It appears as though most of the respondents feel it unlikely they will change external auditors. The reason for the response to F1 is probably due to the increased opportunity cost (dollars, time, knowledge) associated with changing the external auditor. Questions F4 and F5 seem to indicate that respondents have mixed reactions to prohibiting external auditors from providing other services or having the audit committee more actively monitor the external auditor's performance, although prohibition and monitoring did weight more towards Likely. Perhaps, they are unsure of the legislative mandates, or they believe the pressure being applied to the external audit profession will keep them in line in the short run. Questions F7 and F8 may indicate some consideration towards the activities of hiring former auditors as employees and restriction on the external auditor from involvement with any internal audit related activities. While Sarbanes-Oxley is very clear on these issues, we were seeking feedback where companies may adopt a set of guidelines stating their position, which may be stricter or provide clarity to questionable areas.

VII. Conclusions

The purpose of audit is to compare what is to what should be. This has been true in the past and it will continue to be true, for both internal and external auditing. It is normal for any activity to come into being as a result of emerging needs. The Institute of Internal Auditors was born in 1941 as the result of emerging business needs. Since that time, as business worldwide has increased in volume and complexity, the internal auditing function has changed in response to those emerging needs. Internal auditing today involves a broad spectrum of types of operational activity and levels of coverage. It has moved beyond being a staff activity roughly tied to the controller's department into all operational activities of the organization, and has established itself as a valued and respected part of top management. ¹³

The results of this study indicate that internal auditing is still changing in response to emerging needs. Internal auditing will continue to do what it has done well in the past - change in response to emerging needs. Other research about SOX has also found supportive results for internal auditing's adaptability.

In a Readiness Survey (Sarbanes-Oxley) conducted by Deloitte and Touche in which they asked companies "Is the internal audit function directly involved in the certification process?", companies responded Not Involved 14.3%, Testing effectiveness of controls on behalf of management 67.9%, Monitoring compliance with controls 46.4%, Assessment of overall control environment 78.6%, and Not applicable, do not have an Internal Audit Function 3.6%. ¹⁴

¹³ Brinks, p. 1-2.

¹⁴ Deloitte & touché Consumer Business Practice Readiness Survey, Nov. 2002 @ www.deloitte.com.

Even though this study indicates some uncertainty with regard to how the audit schedules will be impacted, there does seem to be some feeling that internal audit will be heavily involved with the control system and ensuring compliance with the financial reporting process. There may be some corporate governance committees established and internal audit will play a more important role in strengthening internal controls, risk management, and corporate governance.

Indeed this seems to be confirmed in a survey conducted by BizNet Software in which they asked “How does your company plan to respond to the new certification requirements mandated by Sarbanes-Oxley”, over three-fourths reported they will need to make changes to the current way they do business in order to comply, with almost half reporting they do not yet know what those changes will be.¹⁵

There is no doubt that the recent corporate conundrums have increased a focus on the audit profession and have created a shift in the mindset of audit shops. As a CBS news poll conducted in July 2002 found, 79% of Americans told pollsters “questionable accounting practices are widespread”. It would seem that the internal audit function could have a significant impact in reversing that belief, be it real or perceived.¹⁶

Interestingly, the attest function has been the backbone of the accounting profession. It is what distinguishes the practice of accounting, and has made the Certified Public Accountant (CPA) designation the de facto standard. This current “Post-Enron” climate, the passage of SOX, plus public sentiment, all demean the accounting profession overall (and external auditing profession severely). Nevertheless, internal auditing has been handed a new strategic role. Internal auditing has escaped much of the negative aspects this new worldview, has a proven record of innovation and improvement, and can

incorporate the new and the different. Internal auditors can be leaders (and educators) in this emerging world. Internal auditors can, in effect, audit the “values” of an organization.¹⁷

In addition, the quality of self-regulation is the hallmark of a profession, along with a code of ethics. The accounting profession has just lost more than its reputation; it has lost a chunk of its self-regulatory power. The duty (and responsibility) of the federal government is to intervene in a time of crisis. The Stock Market Crash and the Great Depression brought about The Securities Acts of 1933 and 1934, plus the creation of the Securities and Exchange Commission, and so on. SOX is the government’s reaction to the current accounting crisis, and internal auditing is reasonably unscathed.

In the past auditing was designed to expose hypocrisy, to bring powerful corporations to account for their actions, and to provide accurate and timely information on which stakeholders could act. Although the methods have changed over the years, the principles of providing information to those with a right to know and challenging organizations to do better are still fundamental. Method and assurance techniques are important to ensure accuracy of data, to give credibility to accounts and to contribute to providing high levels of assurance, yet accurate, credible, and rigorous data alone is not enough. Accountability must underpin all of these. SOX is essentially the implementation of new standards, which provides opportunities for profound organizational change. In the past, external auditors primarily acted as a “proxy” for trust between stakeholders and organizations. Internal auditing has a history of changing and expanding, and this survey indicates that they still are.

¹⁵BizNet Software Survey, PRNewswire, March 11, 2003.

¹⁶Journal of Accountancy, Nov 2002, page 52.

¹⁷ M2

VIII. Appendix A: Participant's Comments

Part A: Future Role of the Audit Committee

What additional future changes do you anticipate will take place in regards to the role and responsibilities of the Audit Committee at your company? And other additional comments:

- more say in appraising the performance of the CAE
- Although Sarbanes-Oxley does not apply to my organization, we will probably look at the whistle blower requirements for audit committees and see if we will establish a procedure for this.
- Internal audit is playing an increased role as business consultant with emphasis of ensuring the integrity of the business processes.
- Audit function will be more visible within the organization.
- We were already very sophisticated in these areas so I do not expect big changes other than those required specifically to comply with Sarbox
- AC members will be expected to have a greater understanding of the financials and will be presented with far more information to review and understand.
- More involved in significant accounting policies.
- We already have a very active audit committee. Outside of an increase in frequency of meetings I do not anticipate further changes being necessary.

Part B: Future Role of Internal Audit – Organizations

What additional future changes do you anticipate will take place in regards to the organization of the internal audit department at your company? And other additional comments:

- Continued budget constrains until the economy improves.
- There will be specialists who are focused on compliance with Sarbanes-Oxley.

- We have gone to a risk based COSO based approach and may begin to utilize CSA type practices for certain clients with adequate staff training.
- The audit department will be involved with the rest of the company to help ensure we are and remain in compliance with Sarbanes/Oxley legislation.
- More involvement in compliance with NYSE, SEC rules.
- More reliance on technology to do work thoroughly and efficiently.
- Increase staff size by 1 per year.
- More visibility with senior management, more than just the CAE attending AC meetings to present audit related items to the AC members.
- Very little. Many of the practices in this section of the survey are already in place in my organization.
- In light of budget cuts we may need to be more vigilant re: control and make adjustments to our practices to cover more ground.
- Would like to use co-sourcing for specific internal audit projects to get needed expertise e.g. IT audits, more financial auditing
- The department and company was already comfortable with our training activities, staffing levels and certification requirements.

Part C: Future Role of Internal Audit – General Responsibilities

What do you view as future changes in regards to the general role and responsibilities surrounding internal audit activities at your company?

- Internal audit will be working closer with top management and the Audit Committee to ensure Accountability
- Internal Audit will be responsible for driving compliance with Sarbanes-Oxley.
- Increase focus on business ethics and fraud prevention.
- IA will have leadership role in SOX 404 compliance
- IA is advocating for adopting COSO corporate-wide
- more financial auditing
- As a company we are currently performing a control analysis to ensure we are in compliance with Sarbanes / Oxley section 404. If any gaps are noted in the analysis, Audit Services will focus resources to help resolve the issues

Part D: Future Role of Internal Audit in the Financial Reporting Process

What do you view as future changes in regards to the roles and responsibilities surrounding financial reporting at your company?

- More coordination between IA and EA in the quarterly and year-end review process; also close coordination on the SOX Section 404 work.
- No additional changes. We now assert to our control environment and have our chief financial officer sign that statement.
- just more scrutiny
- More transparent with information disclosed.
- more consistency in reporting among subsidiaries with more coordination from corporate office
- We are already very involved with the financial reporting process. We meet with Finance throughout the year to understand decisions that are being made that affect financial reporting. In 2003 we will participate in an effort to ensure management can certify we are in compliance with Sarbanes / Oxley section 404 as well as 302. This will likely require us to further understand and test controls around the financial reporting process and estimation activities affecting the financial statements.
- We also have a plan to further educate the company on the COSO framework the company adopted in 1995. This will be accomplished by holding standard COSO training classes to be marketed to groups across the corporation.
- We are still determining what role we will have in directly assisting our external auditors. We still need to resolve how we can do so and participate in the effort to ensure the company is in compliance with Sarbanes / Oxley section 404.
- There will be more shared accountability for financial reporting and disclosures across the organization.

Part E: Future Role of Corporate Governance

What additional future changes do you anticipate in regards to corporate governance at your company? What is the tone at the top of the company? How do you feel that corporate governance will (a) affect the market as a whole; (b) transparency of financial information; (c) market value/stock price of companies?

Corporate Governance

- Annual reviews of code of conduct by the AC

- none - we have a good program in place
- enhanced policies and procedures.
- Audit Committee will be even more involved
- establish committee
- More active participation in future disclosures from the newly formed disclosure committee in which the CAE is a member. Also more detailed disclosure to the Audit Committee on ethics violations
- There will likely be an Office of Corporate Governance

Tone

- Excellent!
- Fundamentally strong with a code of ethics policy that is enforced
- Increased emphasis on Accountability at all levels.
- Adequate
- Maximum compliance, and enhanced governance.
- Good
- Very involved and concerned
- Strong
- Management stresses the importance of ethics and compliance. Top management also stresses the importance of following the COSO control framework the company has adopted.
- Favorable
- Strong focus on corporate and governance and controls.

Corporate Governance Market Effects

- All are affected-any unwelcome surprise can be devastating to a company; organizations will increasingly rely on IA to try to ensure such instances are minimized.
- I think we will see some continued skepticism that will cause the market to be depressed. With the continued emphasis by the external auditor on transparency of financial information, I think we will see improvement. If financial information

is understandable and not over complex I think that will translate into willingness of investors to value the stock at a higher value.

- Yes, in a positive way.
- Unsure
- It will affect transparency of financial information.
- I believe it will have a positive impact on reporting and credibility and thus the stock market.
- Little, if any
- Increased corporate governance effectiveness will be necessary to get back the public's confidence in the market. They must believe that the information they are using to make financial decisions is legitimate and accurate.
- no impact
- I believe that it will provide some comfort to investors, but will affect little actual change in the market, transparency of financials, or market values. Personal and corporate ethics cannot be effectively legislated.

Section F: Future Role of the External Auditing Firm

What additional future changes do you anticipate in regards to the roles and responsibilities surrounding external audit activities at your company?

- More substantive testing; higher fees; more involvement in quarterly reviews.
- Independence will be a key issue.
- more scrutiny for independence
- Spend more money; receive less value
- no significant changes
- External audits will be more invasive in regard to the review of internal controls.
- We are currently revising our Audit Committee Charter to recognizing these new responsibilities
- our audit committee does not want our external auditors to do any other consulting projects

X. Appendix B: Committee Members and Contributors

- Maurice P. La Verdure Jr., Jefferson Wells (Chairman)
- Cynthia Claybrook, University of Texas @ Arlington
- Sonya Yoo, Texas Instruments
- Charles Zhang, STMicroelectronics
- Dr. Ray Clay, University of North Texas
- Sandeep Verma, Deloitte & Touche
- Earnest Thomas, Jefferson Wells
- John Harwell, Jefferson Wells
- Bob McCall, J.C. Penney/Eckerd

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