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WORKING PAPER

Interaction between internal audit and different organisational parties: An analysis of expectations and perceptions

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Abstract

This study, based on six case studies within a Belgian context, provides a qualitative assessment of the interaction between internal auditors and the audit committee as well as CEOs and CFOs by analysing their expectations and perceptions. It became clear that both groups have high expectations vis-à-vis the internal auditor(s), although the perceptions of the interactions are not universally positive. On the one hand, audit committee members want the internal auditor(s) to be(come) an important information provider. Therefore they expect the internal auditor(s) to demonstrate and communicate as much as possible their contribution to the monitoring and functioning of the organisation as well as to play a (pro)active role in risk management. It became clear that in most cases, due to a mismatch of interests, there is an under-emphasis on the internal audit oversight roles of the audit committee, which is more perceived by the internal auditors than by audit committee members. In order to reduce this mismatch, both parties should broaden their interests in a converging way completed with a clear communication about the mission and roles of internal audit. On the other hand, CEOs and CFOs want the internal auditor(s) to compensate their loss of control that results from an increased organisational complexity. CEOs and CFOs expect the internal auditor(s) to fulfil an active management supporting role with a strong focus on continuous improvement in risk management, internal controls, organisational processes and strategic important projects. Thereby, internal auditor(s) are expected to create a sufficient level of risk and control awareness within the organisation. Although the interaction with CEOs and CFOs is stronger than the interaction with audit committee members, we found that the expression of findings and suggestions in more quantitative terms and regular informal contacts can still improve this interaction.

Introduction

It has been found that an expectations gap arises when audit customers do not recognise the value of the internal audit (IA) function. But why is its that people do not fully understand the value of the internal audit function? In order to function effectively, internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value adding activity. Failure to reach this understanding could result in the perception that internal audit is simply an obstacle to achieving organisational objectives. This can result in underutilised audit services and ignored audit recommendations (Flesher and Zanzig, 2000).

In academic research, a large percentage of the empirical work related to audit committee (AC) oversight has focused on audit committee effectiveness. However, according to DeZoort et al. (2002), more research is needed to understand audit committee interaction with and reliance on internal auditors. Although in practice, internal auditors also interact regularly with CEOs and/or CFOs, academic research on this interaction is very limited (cf. Griffiths, 1999). Therefore and similar to Spira (1999) and Gendron et al. (2004)'s field studies of audit committees practices, this study, based on six case studies within a Belgian context, aims to understand the interaction between the internal auditor(s) and the audit committee as well as CEOs and CFOs. More specifically, this paper provides a qualitative assessment of the interaction between internal auditors and these organisational parties by analysing their expectations and perceptions, followed by possible reasons for the differences between expectations and perceptions about the interactions. We will complete this with suggestions for (further) improvement of these interactions. As internal auditing is a relatively young profession in Belgium, we are convinced that an in-depth study of these interactions will benefit the further development of the profession.

Willekens et al. (2004), investigating audit committee formation and practices in Belgium for the first time, mainly focused on the formation, size and composition of audit committees. Moreover, they found that in 79 percent of the companies that do have an audit committee, this audit committee meets with the internal auditor. Although dealing with the specific Belgian context, their study gives no details on the interaction between the audit committee and the internal audit function. Therefore, this Belgian study based on six extended case studies, can be considered as complementary to their study.

For each case study, we conducted interviews with the Chief Audit Executive (or equivalent), the chair of the audit committee (or an audit committee member) and the CEO and/or CFO. Moreover, we could get access to lots of relevant (confidential) documents to support our insights from the interviews.

This paper is structured as follows. The next section gives an overview of the existing literature on the interaction between internal audit and audit committees and CEOs / CFOs in order to formulate two overall research questions. The third section outlines some methodological aspects, followed by the fourth section with the insights from our interviews and document analysis. The last section summarises the conclusions of this study and discusses some implications.

Literature review and development of research questions

This section will give necessary background information on the responsibilities and possible expectations of the audit committee as well as the CEO / CFO with relation to internal audit linked with the major insights from previous research in this area. This will allow us to formulate two overall research questions divided into four sub research questions.

Audit committee responsibilities

According to agency theory, owners and agents have incentives to invest in various information systems and control devices to reduce agency costs associated with information asymmetry (Jensen and Meckling, 1976). In this context, management may use various means to indicate to other the quality of the information they are providing. Demands for monitoring may lead to external audits (see Chow, 1982; Anderson et al., 1993), the use of outside directors (see Fama, 1980; Anderson et al.,

1993) and audit committees (see Bradbury, 1990; Menon and Williams, 1994). The use of audit committees can be considered as an important part of the decision control system for internal monitoring by boards of directors (see Fama, 1980). In other words, the board of directors delegates some of its oversight responsibilities to the audit committee.

Spira (1999) notes that there exists a lack of clarity in the definition of audit committee purpose as well as differences of emphasis when comparing national and international guidelines. As this paper focuses on a Belgian context, we refer to the responsibilities mentioned by the European Commission (2004) completed by the relevant paragraphs of the recently issued Belgian Code on Corporate Governance[2] (2004).

In 2004, the European Commission published proposals for EU requirements on risk management and internal controls in the form of the proposed Directive on Statutory Audit[3], and through proposed amendments to the Fourth and Seventh Directives. Article 39 of the proposed Directive on Statutory Audit (2004) stipulates that the audit committee shall *monitor* the financial reporting process, the effectiveness of the company's internal controls, its internal audit where applicable, and its risk management systems. Moreover, the audit committee shall select and propose a statutory auditor or audit firm, oversee the statutory audit and monitor the independence of the statutory auditor or audit firm. These general responsibilities appear in most national and international guidelines and best practices.

Principle Five of the recently published Belgian Code on Corporate Governance (2004) stipulates that "the board should set up an audit committee to assist the board in fulfilling its monitoring responsibilities in respect of control in the broadest sense". Additionally, Appendix C of the Code

[2] The Corporate Governance Committee was established in January 2004 and is chaired by Maurice Lippens. The aim of the Committee was to update the existing recommendations on corporate governance by drafting a single reference code for listed Belgian companies. The final version of the Code has been published in December 2004. Note that the Belgian Code is based on the 'comply or explain' principle.

[3] In the beginning of October 2005, the European Commission has welcomed the European Parliament's approval at first reading of the proposed 8th Company Law Directive on statutory audit of annual accounts and consolidated accounts.

gives more detailed guidelines concerning the audit committee responsibilities in the areas similar to those mentioned in Article 39 of the proposed Directive on Statutory Audit (2004). An overview of these responsibilities can be found in Appendix 1.

A lot of studies have examined the effect of audit committee presence (absence) on various measures of financial reporting quality. Evidence of a positive link between audit committee existence and the quality of financial reporting has been provided by analysis indicating that earnings overstatements are less likely among companies having audit committees (DeFond and Jiambalvo, 1991), and that companies manipulating earnings are less likely to have an audit committee (Dechow et al., 1996). Evidence has also been documented that audit committees are associated with a reduced incidence of errors and irregularities in financial statements (McMullen, 1996). Furthermore, Gwilliam and Kilcommins (1998) found that the presence of audit committees creates a perception of enhanced auditor independence and more reliable financial reporting among financial statements users. Although practicing auditors in a study by Cohen et al. (2002) state that their discussions with audit committees or boards never affect the type of audit report issued, Beattie at al. (2000) found evidence that audit committees reduce the confrontational intensity of interactions between auditors and management by increasing the level of discussion and reducing the level of negotiation.

Contrary to the numerous articles in the professional literature discussing the control and risk management responsibilities of audit committees, the academic literature on the impact of audit committees in these areas is rather limited. Allison (1994) illustrate a case where the audit committee has become an integral element in the internal control system of an enterprise. DeZoort (1997) found, based on a survey sent to US listed companies, that audit committee members perceive internal control evaluation as the most important oversight area. Similarly, a more recent qualitative study by Gendron et al. (2004), based on interviews with different corporate governance parties, leads to the conclusion that audit committee members have an interest in the extent to which internal control is effective, not least because internal control "underlies" the credibility of financial reports. To develop their own appreciation of the internal controls' effectiveness, audit committee members can review internal accounting procedures and controls with the company's financial and accounting staff. Moreover, they can rely on the work of internal auditors (Krishnan, 2005).

Interaction between the audit committee and the internal auditor(s)

In this paragraph we want to give an overview of the existing literature and some previous studies on the interaction between audit committees and internal audit in order to give an overview of possible expectations audit committee members can have vis-à-vis the internal auditor(s).

The relationship between the audit committee and internal audit is an important one, with a reciprocal strengthening of each other's function (Goodwin and Yeo, 2001). In other words, the audit committee can strengthen the internal audit function and internal audit can in turn be an important resource to the audit committee in fulfilling its responsibilities (Turley and Zaman, 2004). Based on their analysis of audit committee charters and reports, Carcello et al. (2002) found that although internal audit can be a valuable resource for the audit committee, disclosures suggest a possible under-emphasis on internal audit.

The increased organisational status and power of the audit committee may enhance the status of the internal audit function. It may also deflect cost control pressures from management who may view internal audit as a cost centre (Quarles, 1994). Based on empirical research, Spira (1999) argues that one benefit of audit committee establishment is the raising of the status of the internal audit function. Internal auditors interviewed in her study particularly valued audit committee support and sought to be proactive in achieving it, sometimes through 'educating' audit committee members. An effective audit committee can strengthen the position of the internal auditor(s) by acting as an independent forum for internal auditors to raise matters affecting management (Goodwin and Yeo, 2001). Therefore, the IIA (2004) strongly insists that the Chief Audit Executive (CAE) should report functionally to the audit committee, which is critical to good corporate governance. The lines of communication and reporting should encourage internal auditors to speak freely, regularly and on a confidential basis with the audit committee. The CAE should be invited at the audit committee meetings to present and discuss his audit planning, findings and observations. Moreover, Braiotta (1999) argues that private meetings between the audit committee and the CAE serve the purpose of enhancing and protecting the independence of internal auditors.

The Belgium Audit Committee Institute[4] (2005) gives an overview of the specific aspects of the internal audit oversight role of the audit committee. The audit committee should:

- develop and approve the internal audit mandate, goals and mission;
- review the (re)appointment, promotion or dismissal of the head of internal audit, and the determination of their qualifications, reporting hierarchy and compensation;
- monitor whether the internal audit function has adequate resources;
- follow up on the internal audit department's scope, the results of its operations and recommendations, and of management's responses thereto;
- regularly evaluate the internal audit department's objectivity and independence of judgment;
- monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system;
- review and assess the annual internal audit work plan.

According to Bishop et al. (2000), internal audit is a valuable resource that can provide the information needed for audit committees to meet their governance mandate. Similarly, Raghunandan et al. (1998; 2001) argue that the information asymmetry between audit committees and management is more likely to be reduced when there is high-quality interaction between audit committees and internal auditing. Regular meetings between the audit committee and internal auditing make it more likely that the audit committee remains informed and knowledgeable about relevant accounting and auditing issues. Maximum benefit from this interaction can only be expected, however, if members of the audit committee have the technical expertise to understand the work of the internal audit function

[4] The Audit Committee Institute in Belgium (sponsored by KPMG) is a knowledge resource for the support of audit committee and other board members. The objectives of the Audit Committee Institute are to promote awareness of the responsibilities of the audit committee, and to support the implementation of effective monitoring processes.

together with the independence to enhance the status of internal audit (Goodwin, 2003). "The biggest weakness in corporate governance is the audit committee's lack of knowledge about what internal audit does (Page and Spira, 2004, p. 70)".

Bishop et al. (2000) gives an overview of more specific (theoretical) roles of internal auditors to support the audit committee:

- general assistance could include: facilitating the information flow to the audit committee (assistance in developing an appropriate information system for the audit committee) or performing special projects or investigations as requested by the audit committee;
- financial reporting assistance could include: supporting the audit committee in its evaluation of whether or not the company has satisfied its internal and external reporting objectives, supporting the audit committee in its assessment of the quality of financial reporting (including appropriateness of accounting principles), providing information and insight regarding the strength of controls over the quarterly reports or assuring audit committee members that they are receiving reports with relevant and timely business performance measures;
- risk and control assistance could include: supporting the audit committee in its evaluation of whether the company has satisfied its control objectives, providing information that will help the audit committee to monitor the company's control environment or providing information that will help the audit committee to monitor key financial and business risks facing the organisation.

A vast majority of the internal audit directors interviewed by Nagy and Cenker (2002) believe that the activities of their department coincide with the audit committee's expectations. These internal audit directors believe that the audit committee expects internal audit to either improve the efficiency of operations or act primarily in an operational role.

Figure 1 summarises general and specific aspects of the potential interaction between internal audit and the audit committee:

[INSERT FIGURE 1 HERE]

By formulating an answer on the following research questions, this study attempts to validate the figure mentioned above and thereby contribute to the existing literature on the interaction between internal audit and audit committees:

Research question 1a:

What do audit committee members *expect* to be the role of the internal auditor(s)?

Research question 1b:

How is the interaction between the audit committee and the internal auditor(s) *perceived*?

Research question 1c:

What are *reasons* for the *differences* between the expectations and perceptions about the interaction between the audit committee and the internal auditor(s)?

Research question 1d:

How can the interaction between the audit committee and the internal auditor(s) be *improved*?

Responsibilities of the Chief Executive Officer (CEO) and/or Chief Financial Officer (CFO)

When screening the International Standards for the Professional Practice of Internal Auditing (2004), published by the Institute of Internal Auditors (IIA), some Standards refer to the responsibilities of the CEO and/or CFO with respect to internal audit. The Performance Standards (2010; 2020; 2060) mention that the CAE should consider the input of senior management (including CEO and/or CFO) in the internal audit planning. Moreover, the CAE should communicate the internal audit planning and resource requirements, including significant interim changes, to senior management for review and approval. The CAE should also report periodically to senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Although the audit committee should be responsible for the (re)appointment and dismissal of the CAE, McHugh and Raghunandan (1994) found that, especially in large companies, CFOs have the authority to hire (31 percent of the companies) and fire (29 percent) the CAE. If the hiring / firing authority is vested with the audit committee but senior management continues to have authority over the budget and evaluation of the internal auditing department, the internal auditor(s) remain strongly "dependent" on the CEO and/or CFO.

Interaction between the CEO / CFO and the internal auditor(s)

Due to an often strong direct or indirect relationship with the CEO and/or CFO, as suggested above, it can be expected that they are in a position to exert significant influence over the internal audit function. Although Griffiths (1999) argues that financial directors' expectations of internal audit are significant in relation to its role and development, the number of empirical studies investigating the relationship between the CEO and/or CFO and internal auditors is limited.

Galloway (1995) points out that managers may restrict the internal auditor's role to the evaluation of internal controls over traditional areas such as accounting and finance. Similarly, Mathews at al. (1995) found an apparent lack of understanding of the wide range of services that internal audit can offer. In their survey of CEOs in Australia, they found that 41,8 percent of the respondents believe that the internal audit function is simply an independent appraisal of the internal control system. Ridley and D'Silva (1997), comparing and contrasting senior managers' perceptions of internal auditing value, also found that most senior managers saw internal auditing in its traditional role of providing assurance through investigation, check and assessment. Some recognised a widening internal auditing scope into new roles as consultants and advisers, particularly in control associated with information technology and management performance. Remarkably, the pattern of management perceptions of value from internal auditing contributions was mixed between CEOs and CFOs. More CEOs than CFOs saw a growth of value in reports to regulators and reports on environmental issues. More CFOs than CEOs saw a growth of value in reports on internal control.

Griffiths' study (1999) within 92 FTSE 200 companies reveals that financial director's perception of internal audit is by no means universally positive. The main concerns were that the function was too low key and basic (and therefore insufficiently operationally or business risk oriented) or that the function was lacking in skills (or had a poor mix of skills/staff). Following the financial directors in his study, internal audit needs to become much more business (risk) and operationally oriented, be more proactive, responsive and innovative and enhance the skills within the function as well as a the quality of the staff. In general, providing a more constructive contribution via involvement in the assessment and management of business risk would enhance financial directors' perception of the internal audit function. More specifically, managing the control and risk self assessment process or having a significant involvement in its delivery provides the opportunity to directly support the financial directors' requirements and responsibilities in this regard. Surveys by KPMG in the US (KPMG, 1999) and Deloitte and Touche Tohmatsu in New Zealand (2000) suggest that, in general, internal auditors are more optimistic about the extent of their potential contribution to risk assessment and management than are senior executives.

According to the financial directors in Griffiths' study (1999), the main challenges for internal auditors, at that time, were to enhance the cost-effectiveness and added value of the function. A further challenge was to gain greater acceptance from operational management and thereby in a position to influence strategic thinking. This in turn should enhance the reputation of the function and provide the opportunity for IA to become a greater source of future management talent for the business.

This study attempts to formulate a qualitative answer on the following research questions and thereby try to extend the literature on the interaction between internal audit and the CEO / CFO.

Research question 2a:

What do CEOs / CFOs *expect* to be the role of the internal auditor(s)?

Research question 2b:

How is the interaction between the CEOs / CFOs and the internal auditor(s) *perceived*?

Research question 2c:

What are *reasons* for the *differences* between the expectations and perceptions about the interaction between the CEOs / CFOs and the internal auditor(s)?

Research question 2d:

How can the interaction between the CEOs / CFOs and the internal auditor(s) be *improved*?

Methodology

Complementary to the existing research in this area, mainly based on *quantitative* data (e.g. DeZoort, 1997; Griffiths, 1999; Goodwin and Yeo, 2001; Carcello et al., 2002; Goodwin, 2003), this study uses a wide range of *qualitative* data in order to get a more in-depth insight in the dynamic interaction between internal audit and different organisational parties. Turley and Zaman (2004) are convinced that qualitative research methods incorporating case studies and interviews provide significant potential for researching the interaction of audit committees with other parties such as auditors.

The selection of the six companies (cases) for this study was partially theoretically driven and partially based on experience with the internal audit profession in Belgium. Based on previous research, indicating that the economies of scale through the establishment of an internal audit function increases with firm size (e.g. Chow, 1982), we controlled for *firm size* and selected companies with at least 1 000 employees[5]. Furthermore, we included an equal number of manufacturing and service companies. Note that all six companies are operating on an international scale (Europe, US, Asia and Middle East). Previous research on the internal audit profession within a Belgian context (cf. Sarens and De Beelde, 2004; 2006 *forthcoming*) indicated two interesting parameters to control for: the age of the internal audit function and the number of internal auditors. Related to the first parameter, we included four companies with a mature internal audit function (exists for more than five years) and

[5] In September 2005, there are 190 Belgian companies with more than 1 000 employees (Belfirst).

two companies that recently created an internal audit function (exists for less than five years). Related to the second parameter, we selected for five companies with a small internal audit department (less than five internal auditors) and one company with a larger internal audit department (more than five internal auditors). Therefore, when discussing the empirical results, we will often talk about 'the internal auditor(s)', as in most cases we can not talk about a real internal audit 'department'. Table 1 gives an overview of the six cases:

[INSERT TABLE 1 ABOUT HERE]

For each case, we contacted the internal auditor (when there is only one person performing the function) or the Chief Audit Executive (when there is more than one internal auditor). As a kind of introduction to each case study, we conducted a semi-structured interview with this person in order to get a first impression about the interaction (e.g. reporting relationships) of internal audit with the different organisational parties. We also asked him/her for the coordinates of the audit committee chair (or another audit committee member) and the CEO or CFO, depending on the reporting relationships. Contrary to the internal auditors, it was not easy to reach these persons and arrange an interview with them. Consequently, it took us several months to conduct all 19 interviews. The interviews lasted from 60 to 120 minutes, were tape recorded and transcribed immediately after the interview took place. In order to support the interview data and enhance the reliability of our conclusions, we got copies of lots of archival materials like the internal audit charter and the internal audit planning and even more confidential documents like internal audit reports, internal presentations, risk matrices, business control guides, audit committee reports,… Only one company was reluctant to the release of this kind of documents. Table 2 gives an overview of all collected data:

[INSERT TABLE 2 ABOUT HERE]

The analysis of these qualitative data was based on the analytical protocol recommended by Miles and Huberman (1994). More specifically, all interview transcripts and documents were coded. Next, the most important observations were summarised for each company and sent back to the interviewees to get their confirmation about our interpretations. They got the possibility to react openly and add new elements if necessary. These adjusted insights were translated into standardised matrices that facilitated the discovery of patterns through cross-case analysis.

Empirical results

What do audit committee (AC) members expect to be the role of the internal auditor(s)?

In general, AC members have high expectations about the role of the internal auditor(s) in their organisation. AC members want the internal auditor(s) to demonstrate as much as possible their specific contribution(s) to the monitoring and functioning (efficiency) of the organisation. More specifically, they expect the internal auditor(s) to work towards the achievement of specific results in a limited number of areas. The following paragraph from an AC meeting report clearly illustrates the fact that AC members do not feel comfortable when there are too much audits "in the pipeline": *"The current audit strategy of having multiple parallel audits is not ideal, not for the organisation nor the internal auditor. The audits last too long and due to the fragmented input have diminished quality and coherence"*.

AC members, in most cases external and independent directors, want the internal auditor(s) to become (more) like *"translators"* or *"communicators"* between the operational levels and the monitoring level (of which the AC is part of) of the organisation in order to compensate their lack of information about *"what is generally going on in the organisation"* (cf. Figure 1). This shortage is often considered as a serious constraint in the fulfilment of their responsibilities. More specifically, in the course of their work, internal auditor(s) are expected to signal and communicate clearly all recognised risks and problems as well as shortcomings in the internal control system. In order to achieve this, the internal auditor(s) should be able to communicate with everyone in the organisation, which necessitates an open and friendly attitude. Besides, they expect the internal auditor(s) to be(come) facilitators for whistle blowing.

It is remarkable that all AC members interviewed in our case studies expect the internal auditor(s) to be(come) an important and (pro)active player in risk management. More specifically, they want the internal auditor(s) to focus on specific high risk areas (e.g. inventories, foreign subsidiaries, IT applications), as these are also their areas of interest, especially when these have a direct or indirect impact on the financial results. One of the AC chairs regrets that *"if you ask something about risks… internal audit is doing very little"*. After a thorough assessment of these risks, the internal auditor(s) should review the adequacy and effectiveness of the related internal controls as well as the compliance with existing policies and procedures, followed by the formulation of focused suggestions for improvements and even assistance with the implementation of these suggestions. AC members do not consider this last aspect as a potential threat for the independence of the internal auditor(s). In order words, AC members expect the internal auditor(s) to be(come) specialists in risk assessment, coupled with sufficient expertise to play a valuable advising or even more (pro)active role in the management of these risks. By fulfilling this role, the internal auditor(s) can improve their role as the necessary and valuable source of information on risks and internal controls (cf. Figure 1).

Most AC members are more or less convinced of the *potential* added value of the internal auditor(s) in the evaluation and especially the improvement of the internal controls: *"Our internal auditor should be more actively involved in the implementation of his suggestions, this should certainly add value"*. Apparently, AC members expect the internal auditor(s) to fulfil a more *consulting oriented* role in risk management. This is probably due to the fact that specific improvements thanks to the internal auditors' consulting oriented efforts are easier to observe and value than the provision of a rather "abstract" level of assurance. For those organisations lacking a more or less formalised risk management system, AC members are convinced of the valuable role of the internal auditor(s) in this formalisation process, which clearly corresponds with these last ones own perception.

Especially for those organisations having a limited number of internal auditors (note that three of the six companies have only one internal auditor), AC members strongly believe that a further expansion of the organisation (e.g. through acquisitions), often on an international scale, necessitates the engagement of additional internal auditor(s). When necessary, they are prepared to discuss and defend the extension of the IA department during the AC meetings. This is considered as a valuable support by the current internal auditor(s).

The interaction between the audit committee and the internal auditor(s): facts and perceptions

The cases show that the strength or maturity of the AC in general determines the strength of the two-way interaction between the AC and the internal auditor(s). The more the AC is perceived as important and influential within the organisation, the stronger their interaction with the internal auditor(s) (more input and more active follow-up of their findings and recommendations). In one specific case, showing the opposite of what is mentioned above, the AC chair suggests that his committee is a rather theoretical and obligatory concept without much decisive influence: *"I have to confess that in most cases the audit committee is running after the facts"*. Instead of considering the internal auditor(s) as a valuable and independent information provider, in this case the AC chair prefer to rely almost exclusively on the external auditor. Consequently, the reciprocal relationship between the AC and the internal auditor(s) (cf. Figure 1) is clearly underdeveloped, which can be considered as a missed chance for both parties.

In a majority of the cases, IA related topics like the approval of the audit planning and the follow-up of the results and recommendations are not considered as the most important AC responsibilities. An analysis of several AC meeting reports reveals that they often spend a very limited proportion of their time on these topics. This was confirmed by one of the interviewed internal auditors who regret this situation: *"If an AC meeting takes two hours, they talk about the financial results for more than 1 hour and 45 minutes, so they (can) only spend 5 to 10 minutes on internal audit topics"*. Remarkably, most AC members are convinced that they show enough interest in IA topics, whereas most internal auditor(s) complain about the limited interaction they have with the AC members. This is understandable as they have high expectations vis-à-vis the AC. More specifically, they are not satisfied about the possibility to participate in the AC meetings and the input they get from the AC members. Moreover, based on the very limited number of questions, they feel doubt about the follow-up of their audit reports.

On the contrary, there is one particular case in which the AC chair perceives the internal auditor(s) as very important for the organisation. Consequently, the AC is actively interested in the work of the internal auditors and seeks support from them in the fulfilment of their responsibilities. *"I perceive internal audit as extremely important for our company and attach a lot of importance to the function. Naturally, they have a very large added value for our company. I think we can say that more than 50% of our time is devoted to internal audit. The interaction between the audit committee and internal audit is optimal".* This high level of AC support improves the acceptance of the IA findings and recommendations, which contributes to the maturity of the function as a whole. Moreover, the AC chair is convinced about the complementary roles of internal and external audit and is therefore actively seeking to enhance the collaboration between both.

***Reason* for the *differences* between the expectations and perceptions about the interaction between the audit committee and the internal auditor(s)**

We can conclude that, except from the one mentioned in the previous paragraph, all our cases show to some extent a mismatch of interests between the AC as a whole and the internal auditor(s). As a result, the reciprocal strengthening (cf. Figure 1) between both parties is far from optimised. Similarly to what is mentioned before, this mismatch of interests and the resulting limited interaction is more perceived by the internal auditor(s) than the AC members. This can be explained by the fact that the internal auditor(s) are more dependent on the AC support, whereas the AC has other sources of information, namely the external auditor(s), about for example the strength of the internal controls.

Looking for reasons to explain this mismatch of interests, our interviewees as well as several AC meetings reports indicate that ACs often focus strongly on financial results and related reporting issues. Contrary, the internal auditor(s)' work is more oriented towards the review and improvement of the risk management and internal control system. Although the monitoring of the risk management and internal control system is often clearly mentioned in the corporate governance charter as an AC responsibility, these topics are only marginally treated by the AC. Previous studies already discussed this remarkable difference between the theoretical ("how it should be") and actual responsibilities of the AC (e.g. DeZoort, 1997; Carcello et al., 2002). Nevertheless, AC members clearly stress their intention to spend more time on their other responsibilities and, by doing this, become more closely aligned with the internal auditor(s).

How can the interaction between the audit committee and the internal auditor(s) be *improved*? In other words, how can we obtain *more alignment of interests*?

Based on one particular case study where the interaction between the AC and the internal auditor(s) is perceived as optimal (see above) and suggestions offered by the interviewed AC members and internal auditors, we can formulate specific suggestions to reduce the gaps between the expectations and perceptions about the interaction between AC members and the internal auditor(s).

Firstly, both parties will benefit from a clear communication about the specific role and mission of IA, for example through the spread of the internal audit charter or a formal presentation of the function. A well-considered marketing of the IA function contributes to the creation of realistic expectations about IA and a more realistic evaluation of the IA work. One AC meeting report clearly mentions this need: *"AC member X is wondering whether the internal audit function is clear within the company. AC member Y responds by stressing the importance of marketing the internal audit function"*. Moreover, the sometimes opposite perceptions about the interaction between the AC and the internal auditor(s) (see above) necessitates a critical and formal evaluation of their relationship (e.g. through a satisfaction questionnaire), which will give both parties the opportunity to express their needs and expectations.

Secondly, it becomes clear that *both* parties should broaden their areas of interest in a converging way as illustrated in Figure 2:

[INSERT FIGURE 2 ABOUT HERE]

On the one hand, if internal control and risk management topics become more present on the AC agenda, as suggested by the Belgian Audit Committee Institute (2005), the mismatch of interests will disappear and AC members will have more incentives to actively involve the internal auditor(s) in their search for information. On the other hand, the internal auditor(s) should have more attention for the impact of their findings and suggestions on the financial results and reporting (direct or indirect effects). By doing this, they will be more able to attract the attention of the AC members an receive the necessary support from them (cf. Figure 1). Besides, an improved communication of the results of their work through *concise* and *focused* audit reports will certainly benefit the reaction and follow-up by the AC members. One AC member clearly stated: *"We expect short reports focusing on the priorities, which would be a nice communication instrument. The current audit reports are too extensive and complicated and thus not a useful working tool for us"*.

We are convinced that these suggestions will strengthen the reciprocal interaction between the AC and the internal auditor(s) , which will probably give more maturity to both parties. Consequently, the internal auditor(s) will be more valued as the crucial information provider on risks, internal controls and financial issues. The AC, in their turn, will give the needed support to the internal auditor(s) by suggesting (ad hoc) topics to include in the planning and following up the results of the audit work more closely (cf. Figure 1).

What do CEOs / CFOs expect to be the role of the internal auditor(s)?

According to the CEOs and CFOs in this study, the start-up (and existence) of the IA function is mainly driven by the growing complexity as a consequence of organisational growth through (international) mergers and acquisitions as well as the continuous trend towards decentralisation. They expect the internal auditor(s) to *"keep close to the business"* and 'compensate' the loss of control that results from this increased complexity by actively monitoring the different business units and contributing to the development of a standardised and uniform internal control system.

Similar to AC members, our data analysis reveals that CEOs as well as CFOs have high expectations vis-à-vis the internal auditor(s) because of their overall experience with the business and their specific expertise within risk, internal control and related areas. One CEO stresses that they *"really need internal auditors that know the business very well"*.

Apparently, all CEOs and CFOs in our cases expect the internal auditor(s) to fulfil an active management supporting or assisting role. One CEO admits that he tries *"to influence the internal audit program in order to make them work in a more supportive way"*. Moreover, they expect the internal auditor(s) to be(come) a continuous improvement tool. Some of them are convinced that this role will become more important in the future. Following the CEOs and CFOs, there are three areas in which the internal auditor(s) should 'apply' these valuable roles. First, the internal auditor(s) should focus on the provision of assurance about the risk management and internal control system: *"Internal audit's objective view on the processes and controls sets me at ease. The assurance we get from him is an important aspect of his added value"*. As they do not want IA to become an extra control function, CEOs and CFOs expect this to be only a limited part of their tasks and clearly want internal auditor(s) to play a more (pro)active role in the improvement, standardisation and formalisation of the risk management and internal control system. More specifically, they expect the internal auditor(s) to engage in risk assessments (e.g. risk mapping), develop and maintain a risk database or develop a business control guide. Secondly, the internal auditor(s) are expected to spend enough time on the improvement of the processes. Because the resulting efficiency enhancements visibly contribute to the daily functioning of the organisation, CEOs and CFOs have high expectations with regard to this aspect. Thirdly and depending on the maturity of the IA function (see further), CEOs typically aim to take advantage of the internal auditor(s)' expertise and knowledge of the organisation by actively looking for their valuable advice in strategically important projects (e.g. due diligence, ERP implementations).

Most CEOs and CFOs declare that they expect the internal auditor(s) to be(come) the 'guard(s) of the corporate culture'. Similar to AC members, CEOs and CFOs attach great importance to the ‘signalling’ role of the internal auditor(s) with respect to internal problems and inefficiencies. In the context of corporate governance, CEOs and CFOs become convinced of the need to evolve towards a more risk and control aware culture, as illustrated by the following paragraph from one of the company’s Business Control Guide: *“Even if it is difficult, the amounts of money at stake and our responsibility towards our stakeholders forces us to continuously care for the risk dimension and not only for the short term return of our business”*. Therefore, they really need the internal auditor(s) to create a sufficient level of risk and control awareness throughout the organisation, as confirmed by one of the interviewed CFOs: *“I hope internal audit will make our employees more risk aware, make sure that they will think about potential risks when taking future decisions”*. They are convinced that well-structured IA reports are a suitable instrument to communicate about risks and internal controls. By doing this, the internal auditor(s) can contribute to a change of the overall attitudes and corporate culture. Internal auditors themselves confirm that this is one of their potentially value adding roles in risk management.

The interaction between the CEO / CFO and the internal auditor(s): facts and perceptions

When comparing the perceptions of the CEOs with those of the CFOs, a remarkable difference emerges. On the one hand, CEOs have a more general and global view on the IA function, often lacking detailed insights in specific aspects of the IA work. Consequently, it is more difficult for CEOs to see the potential aspects of their added value, as this is often reflected in specific parts of their tasks. On the other hand, CFOs are in most cases more actively involved in operational aspects of the IA work. This more intensive interaction makes it easier for them to perceive the real value adding aspects of IA: *“I can give you several examples of audits that have added value to the company…”*. Therefore, it seems logical that CFOs are more enthusiastic about a further expansion of the IA function. One CFO is even convinced that *“we fight more or less for the same objectives, namely an improvement of the internal controls”*. Besides, we noticed that CFOs are more aware of the assurance role of the internal auditor(s) with respect to internal controls. Probably because of their own responsibility for the monitoring of internal controls, they are actively searching for an objective and independent assurance provider.

Our case studies clearly illustrate that the interaction between the CEO / CFO and the internal auditor(s) is stronger than the interaction of these last ones with the AC members. When analysing the audit planning of the several IA departments, it becomes clear that CEOs and CFOs have more influence on the IA tasks. It is confirmed by the internal auditor(s) that the (ad hoc) topics suggested by CEOs and CFOs are considered as unconditional priorities, as these often reflect high risk areas. Furthermore, in most cases the CEO / CFO is actively following-up the results of the internal auditor(s)' work, which clearly enhance the level of acceptance of their findings and recommendations. The following statement from one of the CFOs illustrates that an active follow-up is sometimes needed to incite for action: *"When I formally react on audit reports, they know it is serious"*.

Overall, most CEOs and CFOs are satisfied with their internal auditor(s) and the interaction with them: *"We clearly noticed improvements of the efficiency in general and the processes more specifically"*. In some case, this satisfaction stimulates them to think about a possible expansion of the IA function in the future: *"Thanks to the specific improvement realised after internal audit intervention(s), we are planning to engage an extra internal auditor. This will enable internal audit to focus more on continuous improvement"*.

It seems a perfect interaction, but not in all cases…

For young, recently started IA functions (note that in two of the six cases the IA function was created less than three years ago), acceptance from top management is not achieved from the early beginning. In most cases, this is simply due to ignorance about the IA function. As soon as they are confronted with the specific advantages of IA (e.g. discovery of new risks or problems, specific 'real life' improvements thanks to implementation of internal audit's recommendations), their opinion will change quickly and the 'police man image' of IA will disappear. Most internal auditors are aware of this 'delay effect' on behalf of (top) management.

How can the interaction between the internal auditor(s) and CEO / CFO be improved?

Although most CEOs and CFOs are satisfied with their internal auditor(s), young IA functions still have to deal with a certain level of ignorance. Similar to the interaction with AC members, the interaction between the internal auditor(s) and CEOs / CFOs will benefit from a clear communication. Therefore, the internal auditor(s) should spend enough time to 'promote' their function in order to get a sufficient level of acceptance from top management: *"The internal auditor has to 'sell' his function. This should be done more in the future"*. More specifically, they should clearly communicate their mission, methodology and potential added value.

Besides this minimum level of acceptance, the internal auditor(s) must get the attention from the CEO / CFO for the output (results) of their work. Therefore, it is recommended to issue brief and focused reports using an understandable language in which the implications of their findings and suggestions are expressed in quantitative terms. This is not easy to realise, but some cases clearly illustrates that this is a very effective way to get their attention. One CFO stresses that: *"Money makes the world go round. Costs are still the only driver for people"*.

After investigating some fruitful interactions between the internal auditor(s) and CEOs / CFOs, it becomes clear that both parties will benefit from regular informal contacts. Besides the usual formal interactions (e.g. through audit reports), informal contacts will allow the internal auditor(s) to fulfil their signalling role more effectively (see above). Thanks to these informal contacts, CEOs and CFOs will become more involved in the daily and specific operating of the IA function, which makes it easier for them to become aware of the added value of the internal auditor(s).

Although the rotation of internal auditors within the organisation is often looked suspiciously by the CAE or audit manager, top management interprets this as an important signal that IA delivers high qualified people with a lot of relevant business experience. Most CEOs and CFOs appreciate it when IA becomes a dynamic function with a certain level of rotation. The fact that IA can be an important training ground is considered by CEOs and CFOs as an important aspect of their added value: *"I want* *internal audit to be a group of young people who can rotate or promote within the company. Internal audit is an important training ground and I prefer to keep it like that"*. In some cases, we found evidence that CEOs and CFOs become more actively interested in the IA work and spend more time on the interaction with the internal auditor(s), when the function is clearly defined as a training ground for future executives. In other words, the maturity of the IA function will enhance in the eyes of CEOs and CFOs.

Conclusion and discussion

Summarised, this study investigated in a qualitative way the interaction between the internal auditor(s) and on the one hand AC members and on the other hand CEOs / CFOs. The extended analysis leads to the following conclusions. Overall, it became clear that both groups have high expectations vis-à-vis the internal auditor(s), although the perceptions of the interaction with the internal auditor(s) are not universally positive. Table 3 gives an overview of the findings:

[INSERT TABEL 3 ABOUT HERE]

AC members want the internal auditor(s) to be(come) an important source of information in order to compensate their lack of information about the organisation, which is considered as a serious 'handicap', especially for external directors, in the fulfilment of their responsibilities (cf. Figure 1). Therefore, they expect the internal auditor(s), with whom they meet only a couple of times a year, to demonstrate and communicate (through concise and focused audit reports) as much as possible their contribution(s) to the monitoring and functioning of the organisation. Besides, the internal auditor(s) are expected to play a (pro)active role in risk management by focussing on high risk areas and spending enough time on the formulation of specific suggestions to improve the internal controls and even assisting with the implementation of it. As illustrated by Woodward and Selim (2004), this consulting role of internal audit often results in an increase in the ability to contribute to the organisation's efficiency and profitability.

Although risk management and internal control topics are only marginally treated by most of the ACs in this study, the *individual* AC members have specific expectations about the role of the internal auditor(s) in these areas. This illustrates that most *individual* AC members know which topics they *should* discuss in the AC meetings, although the *overall* AC agenda is not yet adapted and remains strongly focused on financial topics. We can wonder whether a more open communication between AC members about their *individual* expectations will improve the functioning of the AC and consequently the interaction with the internal auditor(s). We found indications that the strength or maturity of the AC in general determines the strength of the interaction with the internal auditor(s).

Similar to Carcello et al. (2002), in a majority of our cases, there is an under-emphasis on the IA oversight roles of the AC as listed by the Belgium Audit Committee Institute (2005). Contrary to most AC members, the internal auditor(s) often complain about the limited interaction they have with the AC. More specifically, they are not satisfied about their possibility to participate in AC meetings, the input they get from the AC members and the follow-up of their findings and recommendations.

Looking for reasons to explain the differences between expectations and perceptions, we found a mismatch of interests between the AC and the internal auditor(s), which temper the reciprocal strengthening between both parties. Contrary to DeZoort (1997) and Gendron et al. (2004), the ACs in this study often focus (too) strongly on financial results and reporting issues and neglect aspects like risk management and internal controls. In order to reduce this mismatch and as also suggested by Page and Spira (2004), there should be a clear communication about the mission and roles of IA which enables the creation of realistic expectations. To improve the reciprocal relationship, both parties should broaden their interests in a converging way. In other words, internal control and risk management topics should become more present on the AC agenda, whereas the internal auditor(s) should have more attention for the (direct and indirect) impact of their findings and suggestions on the financial results.

When investigating the expectations of CEOs and CFOs, it became clear that they expect the internal auditor(s) to compensate their loss of control that results from an increased organisational complexity. Given the fact that in five of the six cases we are dealing with a small audit shop with less than five internal auditors, we can wonder whether the current IA functions will be able to come up to this high expectation. An expansion of the current IA function or a collaboration with other persons (e.g. controllers) is in most cases no superfluous luxury.

Contrary to Galloway (1995) and Mathews et al. (1995), the CEOs and CFOs in this study have a very broad range of expectations vis-à-vis the internal auditor(s). Similar to Griffiths (1999), they want the internal auditor(s) to fulfil an active management supporting or assisting role with a strong focus on continuous improvement in three specific areas: risk management and internal control, organisational processes and strategic important projects. More specifically, they expect the internal auditor(s) to help actively with the standardisation and formalisation of the risk management and internal control system and the improvement of the processes, as this contributes to the daily functioning of the organisation. Because of their expertise and knowledge of the organisation, CEOs and CFOs appreciate also the internal auditor(s)' advice in strategic important projects. Complementary to this study, Woodward and Selim (2004) found that a higher involvement in consulting assignments often leads to an increase in the positive attitudes of top management towards internal audit as well as in internal audit's opportunity to interact and partner with (top) management. Similar to the AC members, CEOs and CFOs also attach great importance to 'signalling' role of the internal auditor(s). Particularly, they expect the internal auditor(s) to create a sufficient level of risk and control awareness throughout the organisation. It is worth mentioning that these expectations correspond to a large extent with internal auditors' own perceptions.

When investigating their perceptions, we found that CEOs have a rather general and global view on the IA function, whereas CFOs are more aware of the detailed aspects of the IA work, which makes it easier for them to see the added value. Moreover, CFOs are also more aware of the assurance role of the internal auditor(s). The more or less overall satisfaction of the CEOs and CFOs about their interaction with the internal auditor(s) and their active interest in the IA planning and follow-up of the IA findings illustrates that this is a stronger interaction than the one between the AC and the internal auditor(s). Nevertheless, the two recently started IA departments still have some problems to become fully accepted by top management, which is to a large extent due to ignorance about the IA function. Again, this can be remedied if the internal auditor(s) spend enough time to promote their function.

Moreover, we found that the internal auditor(s) can get even more attention from the CEO / CFO if they use an understandable language and express their findings and suggestions as much as possible in quantitative terms. One specific case illustrates that this is an important, but not an impossible, challenge for internal auditors. Additionally, regular informal contacts, especially with the CEO, will allow the internal auditor(s) to fulfil their signalling role more effectively and will make CEOs more involved in the specific operating of the IA function. Consequently, CEOs will become more aware of the added value of IA. Remarkably, we found evidence that CEOs and CFOs become more actively interested in the IA work and spend more time on the interaction with the internal auditor(s), when the function is clearly defined as a training ground for future executives. The maturity of the IA function will enhance in the eyes of the CEOs and CFOs, when it becomes a more dynamic function with a certain level of rotation.

The Belgian context of this study offers a unique setting, as IA is a relatively young profession, but at the same time, can also be considered as a limitation of this study. Therefore, it will be interesting to conduct the same in-depth study of these interactions within other countries where the IA profession is more mature in order to see whether this leads to the same conclusions. This study focused on the interaction between IA and organisational parties positioned relatively high in the organisational hierarchy. We can wonder how people from other organisational levels look at IA. Probably, the problem of ignorance about IA will be more dominant at lower operational levels. Moreover, the interviewees suggested that, due to increasing corporate governance demands, a more intensive interaction and collaboration with the external auditor(s) is becoming more important. We are convinced that a qualitative study of this relationship will lead to interesting and relevant insights.

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APPENDIX 1: Principle five of the Belgian Code on Corporate Governance
Audit Committee Responsibilities

5.2./1. The board should set up an audit committee composed exclusively of non-executive directors. At least a majority of its members should be independent. The chairman of the board should not chair the audit committee. The board should satisfy itself that the committee has sufficient relevant expertise to fulfil its role effectively, notably in financial matters.
5.2./2. The board should determine the role of the audit committee. The audit committee should report regularly to the board on the exercise of its duties, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.
5.2./3. Parent companies should ensure that the audit review and the reporting on that review cover the group as a whole.

Financial reporting

5.2./4. The audit committee should monitor the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting standards used by the company and its group. This includes the criteria for the consolidation of the accounts of companies in the group. This review involves assessing the correctness, completeness and consistency of financial information. The review should cover periodic information before it is made public. It should be based on an audit programme adopted by the committee.
5.2./5. Management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In this respect, particular attention should be paid to both the existence of, and the justification for, any activity carried out by the company in offshore centres and/or through special purpose vehicles.
5.2./6. The committee should discuss significant financial reporting issues with both executive management and the external auditor.

Internal controls and risk management

5.2./7. At least once a year, the audit committee should review the internal control and risk management systems set up by executive management, with a view to ensuring that the main risks (including those relating to compliance with existing legislation and regulations) are properly identified, managed and disclosed.
5.2./8. The audit committee should review the statements included in the annual report on internal control and risk management.
5.2./9. The audit committee should review the specific arrangements made, by which staff of the company may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. If deemed necessary, arrangements should be made for proportionate and independent investigation of such matters, for appropriate follow-up action and arrangements whereby staff can inform the chairman of the audit committee directly.

Internal audit process

5.2./10. An independent internal audit function should be established, with resources and skills adapted to the company's nature, size and complexity. If the company does not have an internal audit function, the need for one should be reviewed at least annually.
5.2./11. The audit committee should review the internal auditor's work programme, having regard to the complementary roles of the internal and external audit functions. It should receive internal audit reports or a periodic summary thereof.
5.2./12. The audit committee should review the effectiveness of the internal audit. In particular, it should make recommendations on the selection, appointment, reappointment and removal of the head of internal audit and on the budget allocated to internal audit, and should monitor the responsiveness of management to the committee's findings and recommendations.

External audit process

5.2./13. The audit committee should make recommendations to the board on the selection, appointment and reappointment of the external auditor and the terms of his or her engagement. In accordance with the Code on Companies, this proposal should be submitted to the shareholders for approval.
5.2./14. The audit committee should monitor the external auditor's independence, in particular in view of the provisions of the Code on Companies and the Royal Decree of 4 April 2003. The committee should obtain a report from the external auditor describing all relationships between the independent auditor and the company and its group.

5.2./15. The audit committee should also keep the nature and extent of non-audit services under review. The committee should set and apply a formal policy specifying the types of non-audit services a) excluded, b) permissible after review by the committee, and c) permissible without referral to the committee, taking into account the specific requirements under the Code on Companies.
5.2./16. The audit committee should be informed of the external auditor's work programme. The committee should obtain timely information about any issues arising from the audit.
5.2./17. The audit committee should review the effectiveness of the external audit process, and the responsiveness of management to the recommendations made in the external auditor's management letter.
5.2./18. The audit committee should investigate the issues giving rise to the resignation of the external auditor, and should make recommendations as to any required action.

Operation of the audit committee

5.2./19. The audit committee should meet at least three times a year. It should review annually its terms of reference
and its own effectiveness and recommend any necessary changes to the board.
5.2./20. At least twice a year, the audit committee should meet the external and internal auditors, to discuss matters
relating to its terms of reference and any issues arising from the audit process.
5.2./21. The audit committee should decide whether, and if so, when the CEO, the chief financial officer (or senior
employees responsible for finance, accounting, and treasury matters), the internal auditor and the external auditor should attend its meetings. The committee should be entitled to meet with any relevant person without any executive manager present.
5.2./22. In addition to maintaining an effective working relationship with management, the internal and external auditors should be guaranteed free access to the board. To this effect, the audit committee should act as the principal contact point for the internal and external auditors. The external auditor and the head of the internal audit should have direct and unrestricted access to the chairman of the audit committee and the chairman of the board.

Figure 1: The interaction between the audit committee and internal audit

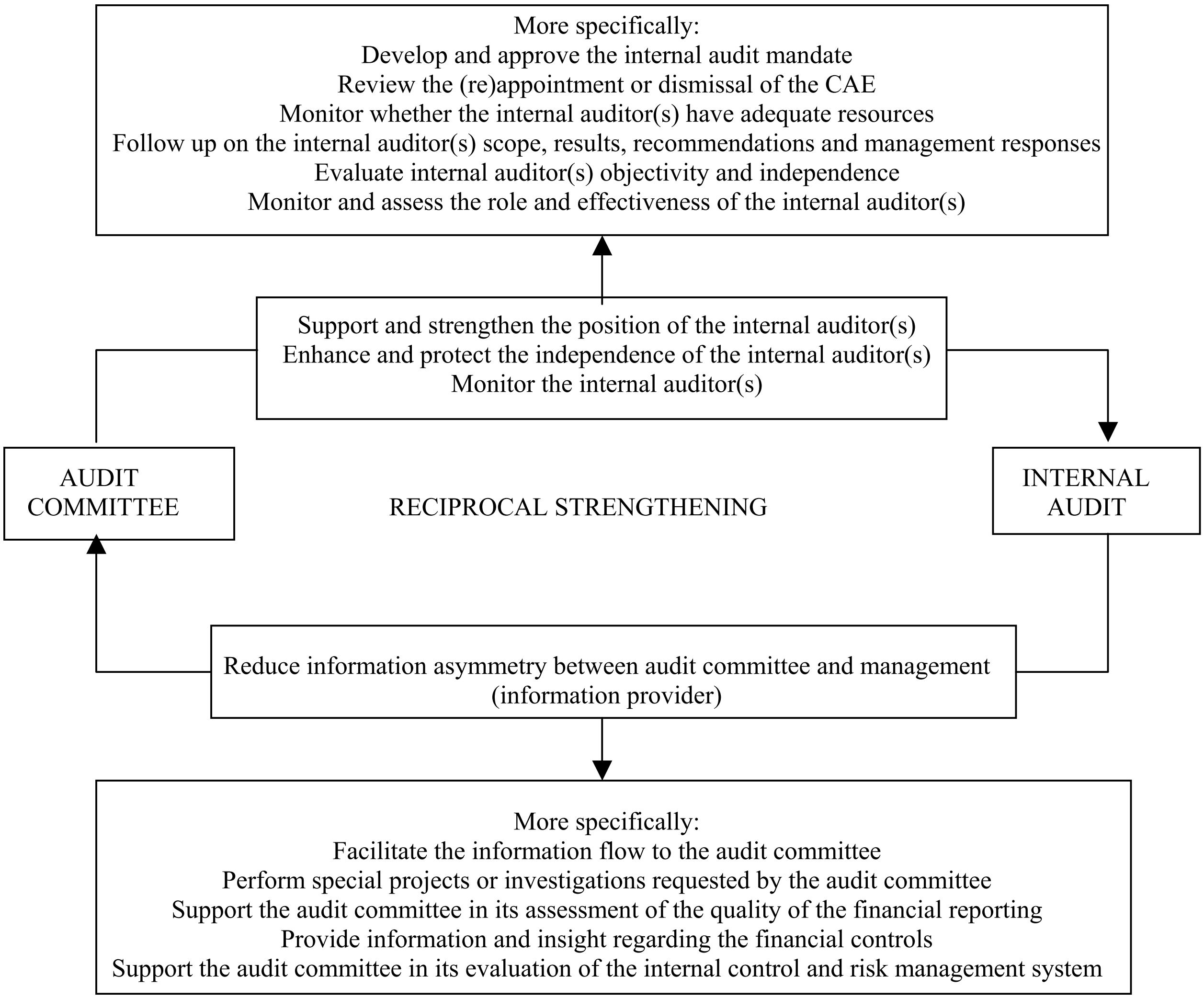

Figure 2: Mismatch of interests between audit committee and internal auditor(s)

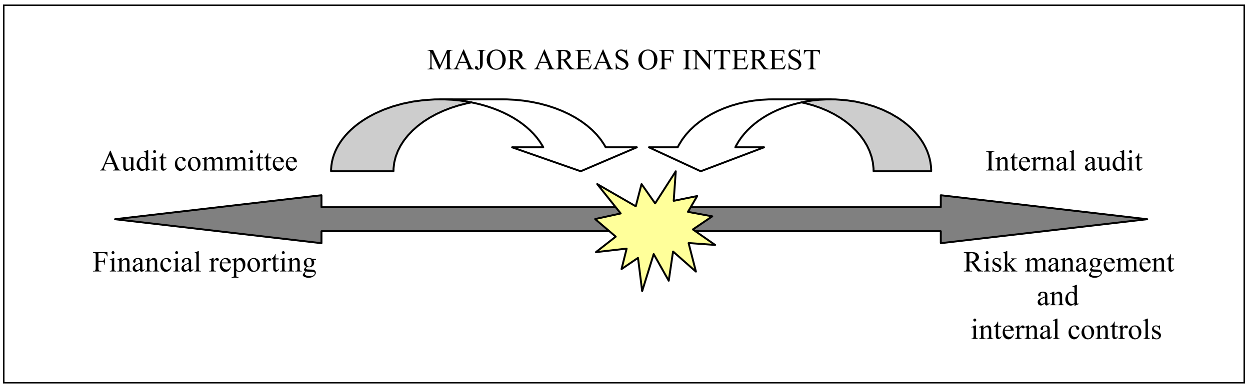

Table 1: Overview of the six case studies

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Number of employees (2004)	2 000 – 5 000	1 000 – 2 000	2 000 – 5 000	> 10 000	2 000 – 5 000	> 10 000
Turnover (2004)	> 1 billion Eur	< 500 million Eur	500 million – 1 billion Eur	> 1 billion Eur	500 million – 1 billion Eur	> 1 billion Eur
Sector	Services	Services	Manufacturing	Manufacturing	Services	Manufacturing
International dimension	14 locations within Europe	Active in 11 European countries	36 sites in Europe, Middle East, Asia and US	Active in 120 countries in Europe, US, Latin America and Asia	Active in 14 countries in Europe, Middle East and Asia	100 production units in 20 countries in Europe, US and Japan
Age IA function	1 year (start-up)	3 years (start-up)	15 years (mature)	20 years (mature)	15 years (mature)	7 years (mature)
Number of internal auditors	1 (small audit shop)	1 (small audit shop)	1 (small audit shop)	10 (large audit shop)	3 (small audit shop)	3 (small audit shop)

Table 2: Overview of the qualitative data

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
Interviews	o CEO o CFO o Member Audit Committee o Internal Auditor	o CFO o Chair Audit Committee o Internal Audi Manager	o CFO o Chair Audit Committee o Internal Auditor	o CFO o Chair Audit Committee o Internal Audit Manager	o CEO o Chair Audit Committee o Chief Internal Auditor	o CEO o Member Audit Committee o Chief Audit Executive
Documents	o Annual report 2004 o Internal audit charter o Internal audit planning o Internal audit report o Report audit committee meeting o Internal audit presentation to audit committee o Control matrices	o Annual report 2004 o Internal audit charter	o Annual report 2004 o Corporate Governance Charter o Corporate Governance Checklist o Corporate Governance Comply or explain overview o Report audit committee meeting o Management letter external auditor o Internal audit reports o Internal audit planning o Follow-up document	o Annual report 2004 o Code of Ethics o Business Control Guide o Internal audit planning o Internal audit presentation o Intranet pages on internal audit	o Annual report 2004 o Audit charter o Presentation audit methodology o Internal audit planning o Overview audits conducted o Internal audit report o Internal audit presentation to audit committee o Audit committee charter o Agenda audit committee meeting	o Annual report 2004 o Internal audit charter o Internal audit planning o Internal audit reports o Risk assessment questionnaire o Risk matrix o Control matrix o Business Control Guide o Minutes AC meeting

Table 3: Overview of the empirical results

	Expectations	Perceptions and facts	Reasons(s) for gaps	How to improve the interaction?
Audit committee members	▪ **Demonstration of IA specific contribution(s) to the monitoring and functioning of the organisation;** ▪ **'Translators' or 'communicators' (compensate lack of information);** ▪ **Important and (pro)active player in risk management (rather consulting oriented);** ▪ Extension of the IA function due to a further expansion of the organisation.	▪ Strength or maturity of the AC determines strength of the interaction between AC and IA; ▪ **IA related topics are not the most important AC responsibilities;** ▪ **Different level of satisfaction about interaction between AC and IA.**	▪ **Mismatch of interests between AC and IA (more perceived by IA).**	▪ Clear communication about role and mission of IA (marketing); ▪ Critical and formal evaluation of the relationship between AC and IA; ▪ Broadening of their areas of interest in a converging way; ▪ Concise and focused audit reports.
CEOs and CFOs	▪ **Compensate the loss of control that results from increased organisational complexity;** ▪ **Active management supporting or assisting role;** ▪ (Pro)active role in improvement, standardisation and formalisation of risk management and internal control system; ▪ Spend enough time on the improvement of processes; ▪ Advice in strategic important projects; ▪ **Guards of the corporate culture (signalling role);** ▪ Create risk and control awareness.	▪ CEOs have a more general and global view on IA; ▪ CFOs are more actively involved in operational aspects of IA; ▪ CFOs are more aware of the assurance role of IA; ▪ **Stronger interaction than interaction between IA and AC;** ▪ **CEOs and CFOs are satisfied with IA and their interaction with IA.**	▪ Still some problems of acceptance due to ignorance about IA (young IA functions).	▪ Clear communication about role and mission of IA; ▪ Brief and focused audit reports using understandable language; ▪ Express implications of findings and suggestions in quantitative terms; ▪ Regular informal contacts; ▪ Define IA as a training ground for future executives.

Bold: General Findings