

QUO VADIS INTERNAL AUDIT EDUCATION?

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Abstract

The importance of internal audit education is more than obviously, being in the same time, emphasized by the settlements of Code of Ethics issued by The Institute of Internal Auditors (IIA). The Code of Ethics states the principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing, describing the minimum requirements for conducting internal audit activities, and one of these requirements being the professional competence. According to this requirement internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services. In the same time, it is absolutely necessary that internal auditors must have a permanent preoccupation for the increasing quality of their internal audit education and so the performance of internal audit services offered. Starting from these premises, our research objectives were focused on the analyzing the context of the evolution of internal audit education from international to national perspectives. Using the method of literature review we made an analysis of internal audit education in the international context, followed by a critical analysis of the internal audit education in the Romanian context. Our results show there are some problematic areas that are looking for quickly solutions in order to assure a good quality of internal audit education, and so a good quality of internal audit services, in that way being accomplished the necessary context so internal audit to be able to add value to the organization.

Keywords: internal audit education, code of ethics, certified internal auditor, certification of internal auditors, quality of internal audit services

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1. INTRODUCTION

Internal audit profession knew a very spectacular developing from the beginning till present, its evolution being marked by some milestones that had big influences transforming this profession into one legitimate profession. In that direction, the adoption of Internal Audit Standards, followed by its Statement of responsibilities and its Code of Ethics and finally the certification program for internal auditors brings legitimacy to the profession that many years of practice could not. It gives to its participants in a recognized profession, higher levels of professional training, recognition by one's peers, better acceptance in the job market, and personal satisfaction in passing a demanding examination (Sawyer, L.B., 1991).

It is very clearly that internal auditors must imply only in those activities for which they possess the necessary knowledge, skills and professional competences. Also, it is absolutely necessary that the auditors must have a permanent preoccupation for the enhancing of the efficiency and quality of offered services. In the situation internal auditors are not in the know of the new progresses and developments regarding the internal audit standards and practices of internal auditing, than we can say that they are conducting the internal audit activities into an immoral manner, that aren't chiming in with the ethical requirements of the profession (Dittenhoffer, M.A. & Klemm, R.J., 1983).

Next, we will emphasize *the most important arguments* that could sustain the necessary growth of the interest for the enhancing of the quality of education in internal auditing:

- ◆ Internal auditor detains an unique position inside the organizational structure of an entity, knowing all the processes and activities of the organization, having in this way the advantage of being able to identify all potential causes for the negative aspects within the organization;

- ◆ In order to be able to fulfill all the growing responsibilities of internal auditors, the universities must assure for its students the opportunity of obtaining necessary knowledge regarding the internal audit activity, in the case they intent to become a future internal auditor;
- ◆ The experience of internal auditors also must include their capacity of identifying the indicators of fraud events, that makes necessary the inclusion into the internal audit curricula from universities, the examination of audit tests and other instruments useful for the internal auditors in the prevention and detection of fraud;
- ◆ The developing of some specific internal audit courses in the curricula of learning institutions could have a great contribution at the promoting of a completed framework that must be shared with the students in order to obtain the best understanding of the ethical values that coordinate the internal audit activity.

2. METHODOLOGY OF SCIENTIFIC RESEARCH

The research methodology of this paper is based on fundamental type of research, trying to make a review of all main approaches, ideas and opinions of high rated specialists regarding the internal audit education trying to identify the next perspectives of this problematic. We focused on the analyzing of the opinions and information provided by specialty literature using the method of description. We used inductive method, but also ded utive method of research. Our final purpose at the end of research was to be able to draw some significant conclusions regarding the evolution and the perspectives of internal audit education through an approach from international to national.

Using the method of literature review we'll try to identify the major coordinates that characterize the evolution of education and certification system of internal auditors. The next step in the construction of the methodology of research was determined by the identification of the potential answers at the questions:

1. Which were the reasons that determined a poor growing of the interest for the education system of internal auditing in the first stages of internal audit's evolution?
2. What could be done in order to increase the quality of this system?
3. Which are the perspectives of the educational system for internal auditing from international context, but also from national context?
4. Which is the actual phase of developing regarding this problematic in Romanian context and what could be done to improve the quality of educational system of Romanian internal auditors?

We consider that finding the answers at the previous questions could help us to identify the ways that internal auditors could improve their educational background and the perspectives that are going to influence the future of the educational system, an increasing quality of this system being absolutely necessary so that internal auditors to be really able to add value to their organization. In the process of finding solutions at the problems discussed we investigated high rated articles and papers, reports and recommendations, combining the documentation process with the observation process materialized in its two forms: participative and non-participative.

3. INTERNAL AUDIT EDUCATION AND CERTIFICATION AT INTERNATIONAL LEVEL: EVOLUTION AND PERSPECTIVES

Internal audit profession in the earliest time of its evolution was not enjoyed of very much attention from specialists regarding the problematic of education. But lately the educative aspects of internal auditing started to be more and more important starting from the premise that quality of internal audit education has a significant influence over the value added provided by internal auditors in their activity.

The basis of The Institute of Internal Auditors were underlain in 1941, and starting with 1954 there could be identified 21 learning institutions that offered internal audit courses (Phillips,

T.J. & Lewis, B.T., 1991). In the same year, an American Accounting Association (AAA) committee report addressed alternative formats for an *internal* auditing curriculum (AAA, 1955). Next decades after this period, we assisted at a decline of the interest for education necessary for internal audit activity, this decline being materialized in the fact that in 1972, only 2 colleges had included in their curricula internal audit specialty (Neumann, F.L., 1972). The study realized by Sumners G.E. and Roy R.A. (1986) reflected that, along 1985 year, 44 learning institutions had included in their curricula one or more courses of internal auditing.

But which were the reasons that determined a poor growing of the interest for the education system of internal auditing in the first stages of internal audit's evolution? Phillips T.J. and Lewis B.T. (1991) identified some reasons that could be considered as potential causes for the poor interest for internal audit education from '80-'90 period of twentieth century:

- ◆ Lack of applied experience among college faculty, very few profess or had internal audit work experience;
- ◆ Shortage of textbooks and other teaching materials;
- ◆ Rapid growth in more traditional accounting literature;
- ◆ Academic emphasis on public accounting, this situation being created by at least some reasons like: public accounting enjoys a certain status and always it has always been considered an excellent training for numerous positions for economic area, and finally public accountants generally have been around longer than internal auditors;
- ◆ Misconception that a general auditing course addresses internal audit requirements and the result was that academic medium sustained teaching of financial audit courses, in spite of the fact from management's point of view, the internal auditor's position is totally different from external auditor's position or public accountant's position.

Internal audit education has to be totally different from the other accounting disciplines even though, from some specific viewpoints there are some similitude between internal and external audit, however each of these areas need specific audit programs operating with different instruments (Sawyer, L.B., 1981).

Sumners (1985) identify several benefits and advantages that could be provided for students and companies through promoting and regularizing internal audit education at the university level:

- ❖ Development of a primary source of entry-level **internal** auditors to supplant the secondary markets on which the profession currently relies for its personnel;
- ❖ Improvement in the consistency of training at the entry-level position;
- ❖ An overall decrease in training cost and an increase in training efficiency ;
- ❖ An increase in awareness and visibility of **internal** auditing by students, academicians, and the general public.

A very interesting conclusion was drawn as a result of the study made by Kusel and Oxner (1987). According to the results of this study demand for new accounting graduates in the internal auditing area represent approximately 30% of the demand of the public accounting job market. This significant need for graduates in the *internal audit* field requires companies to rely on new hires outside accounting. These individuals are costly to train. At best, companies may be able to employ accounting graduates with an understanding of external auditing. But we don't have to forget that the *internal* auditor's objectives are considerably different from those of an external auditor, and many firms are forced to hire people lacking the training or disposition to be *internal* auditors (Phillips, T.J. & Lewis, B.T., 1991).

Major disadvantages of such a practice are that there is some inconsistency in the education program of the internal auditors from entry level, on one side; on the other side, this practice supposes assuring of some training courses (with big costs) for the professional preparing of the internal audit staff.

The Institute of Internal Auditors (IIA) pays a special attention for the promoting of internal audit education. In this direction, in January 1985, it gave all the necessary support for the implementation of a pilot program and the “*Louisiana State University Internal Auditing Pilot*”

School" (LSUIAPS) was begun. The major scope of such a program was to serve as a model for the other universities interested in offering a specialty in internal auditing (Phillips, T.J. & Lewis, B.T., 1991). One of the essential objectives of this program was to prepare students for the Certified Internal Auditor (CIA) examination, which students are required to take at the end of the program, the graduates being monitored for their exam performance.

The activity of The Institute of Internal Auditors regarding the promoting of internal auditing education wasn't limited only at this program. Another objectives of this institution was the providing of research founds to certain learning institution for developing of their own teaching program of internal auditing courses, starting from the premises these programs could be different from LSUIAPS, because internal audit education can be realized in different and many options (Phillips, T.J. & Lewis, B.T., 1991). IIA offered, in the same time, the possibility teaching of some internal audit courses to be realized by some members of IIA recognized as being very specialist and having a widely experience in internal audit activity. Another way of improving of internal audit education was represented by the chance for those students interested in this type of activity to take part in a real team of internal audit within a company, this option assuring the possibility to directly interact cu internal audit practitioners, getting in this way a certain and valuable experience (Greenawalt, M., 1991).

Another significant aspects regarding the professional competence of internal auditing are determined by the certification system of internal auditors, along the quickly evolution of this activity, being generated this specific need of finding the best and most relevant way of certification for internal auditors, that could allow them to obtain a specific status in their clients' vision, but also to earn the confidence of the audittees regarding their professional competences. It is obviously that evolution of internal auditing knew many forms of certification for internal auditors, but the most appreciated one, at international level, assuring in the same time for their possessors maximum of credibility all over the world is the one called **Certified Internal Auditor** (CIA). This program of certification is organized by IIA at international level, and every country member of this institute through their chapters.

Internal audit profession earned its legitimacy through this certification program such a thing couldn't be assured by the long period of practices. In this way, the participants at this program have the opportunity to belong to a profession with international recognizance, obtaining more success on job market but also a bigger professional satisfaction through passing some exams that are not easy at all.

According to the dates mentioned on IIA website (www.theiia.org) a Certified Internal Auditor is that person who meets the necessary requirements established by IIA. These conditions are referring at necessary education, necessary professional experience (24 of relevant experience in internal audit or the equivalent; equivalent experience could be experience in quality assurance, assessment of internal control system or external audit); and finally successful passing of all exams from CIA program. Obtaining of CIA certification represents a real proof in the light of the fact the owner of this type of qualification meets all necessary professional criteria established by IIA. The first CIA exams took place in 1974.

Agraval S. and Siegel P. (1989) realized a study among 2.012 internal auditors from United States of America that posses Certified Internal Auditor qualification, the main objective of this study being the evaluation of the benefits obtained as a result of owning such a diploma. One result of this study shows auditors that also possessed other degrees like a master degree or Certified Public Accountant (CPA) certification didn't observe a significant growing of their professional value on job market, while the persons that did not possess other diplomas were optimistic regarding the potential benefits that could be obtained as a result of CIA qualification. One possible explanation could be the persons that had as a main certification only CIA could better observe the value added obtained as a result of this professional certification.

Nowadays, IIA has been developed a new program called **Internal Auditing Education Partnership Program** (IAEP) in order to answer to the increasing interest of universities in internal audit education. The coordination of such a program IAEP is assured by the **IIA's Academic**

Relations Committee – ARC, which is an international volunteer committee comprised of educators and practitioners whose purpose is to fulfill The IIA's strategic goals and objectives relating to internal audit education.

The starting point of this program was materialized in the fact that high learning institutions which are interested in promoting internal audit education have to detain necessary ability and resources in order to be able to face the coming challenges. IAEP's objective is to have a strong collaboration with those institutions and universities interested in including of internal auditing courses in their curricula. On IIA's site, at Professional Guidance section there are presented reports that offer information regarding the successful results obtained till present by the universities and other institutions that had been introduced in their curricula internal audit courses, the main objective of these reports being to encourage other universities in the promoting of internal audit education and its significant results.

The **benefits** of the Internal Auditing Education Partnership program provided to colleges and universities, students, educators and employers consist in:

- A unique partnership opportunity for educational institutions and practitioners;
- Internal audit curriculum developed around the Professional Practices Framework;
- Internship opportunities with leading-edge companies in a range of industries;
- Graduates with unparalleled internal audit education, ready for recruitment;
- Networking events to build relationships and share lessons learned;
- Educational programs to enhance the learning process;
- Professional guidance to support program administration.

The IAEP program offers colleges and universities three levels of participation with an Entry level, a Partner level and an advanced level known as a Center for Internal Auditing Excellence. Being a member of the IAEP program requires a commitment from the school, the local chapter/affiliate and the IIA Academic Relations. The application for the program requires a five-year plan that discusses all aspects of the school's program as it relates to the core requirements which are listed below. IAEP coordinators are required to submit an annual report that documents their progress and successes. Schools are required to recertify their program every five years.

4. ROMANIAN CONTEXT OF INTERNAL AUDIT EDUCATION AND CERTIFICATION

If we focus our attention on internal audit education from Romanian national context, we have to start from the premise introduction of internal audit in Romania is recently (1999), being a result of general efforts of modernizing financial management, in both public and private sector. *The trend of internal audit evolution in Romanian context was inversed from the international space.* So, if in the international plan the internal audit function was developed starting from the bigger private companies and the multinational companies, extending after to the public sector companies, in the Romania was other way. The internal audit was important at the beginning for the public companies, and prove in this way is the regulations and the laws adopted which regulates the internal audit. After that it has been started the growing of investing in the Romanian economy, the multinational companies increasing in the Romanian economy implies influences of the international practices through which there is the recognizing of the necessity and the efficiency of the internal audit. So, even if the internal audit is at a low level, the internal audit from the Romanian companies is more and more developed, the utility of the internal audit function being bigger and bigger.

We propose to find answers at next question: *What was the evolution of internal audit education in Romanian national context and which are the most relevant certification options for Romanian internal auditors?*

If we think about the period elapsed from the moment of internal audit introduction in Romania (1999) till present (2009), we cannot say that internal audit education is spectacular or very well developed. The first years of implementing period were necessary for Romanian

specialists to understand the way of approaching internal auditing from international context in order to know better which the best practices of internal auditing in developed countries are, but also to astonish key points that influenced internal audit evolution at international level. The internal audit's definition settled by Romanian regulators that was accepted at international level by internal audit specialists was realized barely in 2002. Nowadays, Romania realized the performance to implement a legislative framework according to international requirements and accepted by European Commission being harmonized with other similar systems from the other countries member from European context and not only.

A first important step in the educational process of internal audit in Romania could be identified in the period of 2003-2004 when we have assisted at introduction in curricula of some important universities from Romania of internal audit and internal control courses (Ghișu, E., 2007). It is obviously that is necessary a certain period of time for that disciplines to obtain the performance to impose in academic culture but also in the cultural medium of organizations, especially for the private ones. *When we affirm such a thing we are thinking about the situation of public entities where the need form internal audit is imposed by legislation while for private entities this need is an objective-functional one being compulsory only for those private entities that fulfill certain criteria settled by legal requirements (Law no.31/1990 referring at private entities republished)*

In our opinion, next future is going to give us a significant increasing of progresses regarding the educational process of internal auditing, one argument in this direction being represented by the consolidation and growing phase in internal audit evolution process in Romanian context that we are going to experience.

A significant and delicate problem, in the same time, is represented by the certification system for Romanian internal auditors. Almost all the specialists are agreed with the necessity of certification of internal auditors. The big question is: *Which form of certification for internal auditors should be adopted and how could that be realized?*

The potential answers at this question have been generated real polemics in specialty literature, different opinions regarding the certification system of Romanian internal auditors being divided in two main directions:

- One option for the certification system of internal auditors from Romania, especially for the auditors from public sector is that should be realized through *an activity of master type*, specific to institution of high learning from Romania. The first step of such an activity, supposes the establishing of the universities that could organize such activities with a good reputation, being recognized as having a good practice in this area. The curricula of those universities should be realized in cooperation with the representatives of Public Finances Minister with a structure on three semesters and having the agreement of Education and Research Minister. There are more specialists which are agreed with this idea like: Ghi Marcel (2006), Ghi E. (2007);
- At the opposite pole it could be identified the option sustained by the representatives of IIA Romania chapter, the Association of Internal Auditors from Romania (AAIR), which considers the best solution would be the certification Certified Internal Auditor (CIA) with national recognizance. In that direction, AAIR have been started to action since 2006, organizing preparing courses for the passing of exam and obtaining of Certified Internal Auditors qualification. The main benefits of this qualification presented by AAIR are the international recognizance that proves the professional competence at the highest level, those four exams included in this process of qualification verifying the candidates' abilities and knowledge of internal auditing practices.

Of course, every representative of previous opinions tries to argue its viewpoint as best as possible. In this way, the promoters of master activity sustain the idea certification as Certified Internal Auditor is only for elite (Ghi , M., 2006), while certification through master activity would be more accessible for Romanian internal auditors. But the representatives of AAIR consider this affirmation without strong arguments because the only one difficulty in obtaining the CIA

Table no.2 Relevant modalities of professional qualification for internal auditors from public entities

<i>Relevant modalities of professional qualification for internal auditors from public entities</i>	(5)	(4)	(3)	(2)	(1)	Total
Certification as Certified Internal Auditor with the support of Association of Romanian Internal Auditors (AAIR)	44%	19%	23%	11%	3%	100%
Certification at national level through a master degree specific to high learning institutions	25%	16%	13%	16%	31%	100%
Certification as financial auditor - member of Chamber of Financial Auditors from Romania	9%	6%	19%	17%	48%	100%

(5)- Very important, (4) - important, (3) - neutral, (2) - less important, (1) - not at all important

Source: Bo a-Avram C. (2009)

Analyzing the structure of responses from the previous tables we can easily notice that certification appreciated as being the most important is ***Certified Internal Auditor*** through AAIR (for 66% internal auditors from private entities and for 44% internal auditors from public sector). The relevancy of certification through a master activity is appreciated as being very important by a very small number of internal auditors from private sector (only 2%), and 25% of internal auditors from public sector are giving a significant importance (25%).

Very interesting is the structure of the answers obtained for the *certification as member of Chamber of Financial Auditors from Romania*, only 32% of internal auditors from private entities and 19% of internal auditors from public sector appreciate this type of certification as being neutral important. We consider these results as being at least surprising, especially in the context that legal settlements (Emergency Government Order no. 75/ 1 June 1999 regarding the financial audit activity, article no.23) require that managers of internal audit departments for private entities must have the quality of financial auditor. One possible explanation for the results could be the structure of respondents from their function's point of view (only 13% of internal auditors of public entities and 27% of internal auditors from private entities) are managers of internal audit departments. There are significant differences between internal auditors of private entities and internal auditors of public entities regarding this certification, but these could be justified through the obligation of certifying as financial auditor and member of Chamber of Financial Auditors from Romania is required only for the managers of internal audit department from private sector.

5. CONCLUSIONS

As a result of our activity research for realizing this paper, next we will draw the most important conclusions that could better answer at the question: *Quo Vadis internal audit education?*

- ◆ **Internal audit education** has been largely ignored in the business curriculum throughout the period that the **internal** auditing profession has been experiencing significant growth.
- ◆ Promoting **internal audit education** is one way institutions can provide a broader **education** to accounting students and serve companies that are seeking qualified **internal** auditors.
- ◆ The need for very good specialists in internal auditing become more and more important, especially in the difficult economic context that we have to face with .
- ◆ **Internal audit education** can be as simple as providing a single course in **internal** auditing, or it may take the form of a specialty in the field of economic universities. Whatever the approach that will be adopted, we recommend promoting **internal audit education** to help fill the gap in the accounting curriculum, because internal auditing helps students to develop stronger analytical, problem-solving, and judgment skills.
- ◆ Especially for Romanian national context, but not only, we consider that according to the complexity of internal auditing work it is absolutely necessary the certification of internal auditors. In this way there are going to discourage those passing passengers within internal

audit activity, that are only looking for a job, no matter what they have to do, finally remaining anchored in internal audit profession only those really dedicated to internal audit profession.

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