

Internal Audit Effectiveness

Factors influencing management to listen to the internal auditor's risk warnings
A multi-method study from a behavioural decision making perspective

Violeta Verbraak-Kolevska

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ISBN: 978-94-6361-124-4

Layout and printed by: Optima Grafische Communicatie, Rotterdam, the Netherlands
(www.ogc.nl)

Internal Audit Effectiveness

Factors influencing management to listen to the internal auditor's risk warnings
A multi-method study from a behavioural decision making perspective

Effectiviteit van internal audit

Factoren die het management beïnvloeden om naar de risico waarschuwingen van de
internal auditor te luisteren

Een multi-methodestudie vanuit een perspectief van gedragsbeslissingen

Thesis

to obtain the degree of Doctor from the

Erasmus University Rotterdam

by command of the

rector magnificus

Prof.dr. R.C.M.E. Engels

and in accordance with the decision of the Doctorate Board.

The public defense shall be held on

Friday, October 19th 2018 at 13:30 hours

by

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ACKNOWLEDGEMENTS

Doing research and writing this thesis have been an incredible learning experience to me. As I deliver this thesis, I want to thank several people as without their support accomplishing this challenge would not have been possible. First, I am most thankful to my co-promotor Dr. Arno Nuijten. After my graduation in Macedonia, my dream was to do a PhD study but because of circumstances I did not yet come to that point in my life. But during the finalisation of my Post Master education for internal auditing at the Erasmus University, Arno offered me to start a PhD study in the area of internal auditing. It was not necessary for me to think too long to say 'yes' to this chance. You were there as from the very beginning, always giving good advice and supporting me in good and less good times. Arno, without you I would perhaps never gotten the chance to do what I did.

I also could not have done this without my main promotor, professor Harry Commandeur. Harry, I appreciate very much for granting me the opportunity to do this research at the Erasmus University. Every time I had a meeting with you, I left your room with incredible input and constructive criticism that motivated me even more to go on with my research. You taught me of the phenomenon 'leaning back in the chair', which was new to me, but I sincerely tried to apply throughout all these years.

I also thank professor Gerrit Sarens for all his good tips and advice on each of my papers and helping me in finding sufficient student population for conducting my experiments. I furthermore thank professor Mark Keil from whom I learned how to write a good paper for submission to a Journal. I thank Dr. Nick Benschop and professor Job van Exel who helped me in the chosen research methods for which I needed more guidance. I am thankful to professor Mieke Jans from Hasselt University for her hospitality and help when I needed additional students for one of my experiments. I thank all the students from the Erasmus University, Louvain School of Management and Hasselt University for their participation in this research. I thank professor Egon Berghout and professor Mark van Twist for participating in my dissertation board and the interest in my research.

Of course, I am very grateful to all my audit and non-audit colleagues who gave their contribution to my study by participating in the interviews and discussions. Special thanks to Joop van Gennip (my former CAE) who embraced my idea to start a PhD research and arranged all what was necessary for me to combine this study with my work. Many thanks to John Bendermacher (CAE) and Arthur Voskamp (Head of Audit Support & Professional Practices) who gave me all the necessary support and room to be able to accomplish this research in combination to my full time job.

Without my family, my dream would have never come true. Therefore the most gratefulness firstly goes to my lovely husband Guido and my gorgeous son Victor. Without your support, love, positive energy but also a lot of sacrifice this would not have been possible for me. Also the support I had from my mother and my brother with his family (although far away), my mother and father in law, was of a tremendous importance to me to continue on the road I have started and to accomplish this mission. Finally, I would like to take the opportunity to remember my father, who was a great inspiration to me during this challenge, even though he unfortunately passed away before I started this thesis. Thank you all for your contribution to this thesis.

Violeta Verbraak-Kolevska,
Roosendaal, June 2018

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GLOSSARY

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|--------------------------------|---|
| Auditee | One subjected to an audit (e.g. management of an organization, entity). |
| Bad news messages | Unwelcome but valuable and constructive risk warning messages issued by the internal auditors to the message recipients (e.g. (project) management) about risks that threaten the organization (e.g. projects and their status). |
| Escalating IS-project | Information Systems projects that receive a stable or even increasing amount of resources from decision makers even when strong signals are available that goal attainment of the project is no longer viable. |
| Internal auditor | The risk warning messenger who meets the professional standards of the Institute of Internal Auditing (IIA, 2004). |
| Internal Auditing | An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Institute of Internal Auditors (IIA) definition). |
| Internal audit function | The department within an organization in which internal auditors perform their roles and responsibilities according to the definition of internal auditing provided by the IIA. |
| Nudging | Small cues in a message that could unconsciously be of influence on people's behaviour. |
| Social norm | The term 'social norm' can refer to 1. what is commonly done, what is normal (descriptive norms) and 2. what is commonly approved and disapproved, what ought to be done (injunctive norms). |
| Timing | The precise moment for doing something for optimum effect. |

PREFACE

My PhD journey started some months before I took on the responsibility for the Audit Professional Practices department within a large Dutch Bank in January, 2014. This was a perfect timing to start studying the IA effectiveness because of three reasons.

Firstly, in my new role I was responsible amongst others, for delivering input to our performance reporting to senior management that includes various indicators of the effectiveness of our internal audit department. This provided me with more knowledge of and an insight in the indicators of the IA effectiveness giving me a great opportunity to think about additional indicators to improve IA effectiveness.

Secondly, in these times, senior management of the Bank was faced with important strategic decisions that had to be made quickly and in the right direction, making the effective internal auditor's risk warnings messages to become more necessary than ever.

Thirdly, the CEO read almost every audit report and showed a great support to our internal audit function by personally paying great attention to resolving serious audit issues. This triggered me to go after the effect of this support of senior management for the effectiveness of the IA function.

Being for almost 25 years in the audit profession, having done many audits, I had the wish to give something back to the internal audit profession, give my knowledge contribution to the new generations of internal auditors who will work in practice and academic research.

All the above played pivotal role in my motivation to start a research on IA effectiveness in such crucial times for the company. This thesis consists of four individual studies on indicators of IA effectiveness, which I realised in four years' time in parallel to my full time job.

I hope the results of my studies will help to improve practices and fill the knowledge gap in academic literature about IA effectiveness.