

Measuring the Internal Audit Performance: Tips for Successful Implementation in Turkey

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Abstract

As a capable emerging country and a candidate for EU accession, Turkey needs both structural transformation and an ongoing development and harmonization of its capital market legislation. For this reason, corporate governance framework and the modern internal auditing practices could enable Turkey not only to control its own risks superior but also to enhance the market's confidence in its commitment to sound fiscal and monetary policies. In this paper, we evaluate the internal auditing performance metrics considering the Institute of Internal Auditors (IIA) standards to make relevant recommendations for practitioners in Turkey. In this way, we aim to increase the awareness on the importance of corporate governance framework and the benefits of relying on modern internal auditing techniques for companies. We also intend to contribute the performance improvements in these fields of work.

Key Words: Internal Auditing, Corporate Governance, Performance Metrics of Internal Audit.

JEL Classification Codes: M42, G34

1. Introduction

In today's business environment, Internal Audit (IA) functions are responding to new challenges, changes and expectations. They are highly motivated to provide greater value and be regarded as a key element of their organizations' corporate governance framework. The result is that IA has emerged as an independent, objective assurance and consulting activity designed to add value and improve operations in an organization.

Effective IA functions facilitate financial and operational services of companies to achieve key business objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of corporate governance, risk management and internal control processes.

This is best captured in the Institute of Internal Auditors' (IIA's) definition of internal auditing for today with the one in the previous decade (Table 1). The Research Foundation of the Institute of Internal Auditors (IIA) has developed a new definition of internal auditing; this new definition was accepted by the IIA's Board of Directors in July 2007. Internal audit is defined as: "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."(IIA 2007).

"...An organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control..." (IIA Handbook 1997,3).

Table 1: Old and New Definition of Internal Audit.

Old definition of Internal Audit (1997)	New definition of Internal Audit (2007)
<p>...an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization. In the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information includes promoting effective control.</p>	<p>...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.</p>

Based on the revised definition of IA and the inherent emphasis in IA adding value to an organization, organizations should develop key strategic priorities suitable for their company to employ in its IA function, whether it's in-house, co-sourced or out-sourced to ensure they obtain the right value add from IA. The revised definition of IA gives more emphasis on assurance and consulting services and also value added approach of modern internal auditing.

2. New Trends in Internal Auditing: Building a Sound Corporation by Modern Internal Auditing

Considering today's fast-paced business environment, nothing is more constant than change itself. In such a competitive environment, regional and local companies are broadening the scope of their services so they can better compete with larger and international organizations. Widespread merger and acquisition activity as well as cost cutting pressures in the global economic downturn continue to increase pressure for downsizing or restructuring for many organizations. During this period of change, stakeholders must rely on an organization's internal auditors for assurance on its corporate governance, risk management and internal control processes. Hence, companies have a great tendency to establish more sophisticated and dynamic IA departments that would provide the much needed assurance on the effectiveness of control across an organization. In this respect, IA serves as an essential pillar of the corporate governance framework, working with management, the board of directors and external auditors. As a result, IA functions are being upgraded and given greater responsibility and accountability within organizations especially during times of economic slowdown, volatility and change.

Internal auditors need to be dynamic, keep pace with change and not leave major risks unattended. It is a fact that IA cannot control risks directly; however, it can play a significant role by maintaining a flexible and risk based audit approach and dynamic audit plan to address emerging risks and potential future risks. Hence, IA today is redefining risk classification, identification and assessment capabilities to improve risk-based auditing that supports the organization-wide strategic priorities and is providing assurance and consultative support where it is most needed. Furthermore, IA is aligning its vision and mission with key business risks, recognizing that the audit universe should involve the full range of the organization's major risks and activities. The Audit universe is being expanded to include corporate governance, entity-level internal controls, fraud risk, new strategic business plans and information technology (IT), security and other high-risk areas in an organization. The essential point is that internal auditors are now learning to cope with steadily changing business environment, i.e. they are monitoring their organization's dynamic risk profile persistently and adapting their audit plan accordingly to be more flexible and effective.

Today's executive management has greater accountability for corporate governance, risk management and internal control. They start relying on IA to assist with these responsibilities and, as a result, are rethinking their expectations of IA's role. They have greater demands on and heightened expectations for the IA function, with an increasing focus on core assurance activities as an essential value driver. IIA suggests that the purpose, authority and responsibility of IA as well as the nature of assurance and consulting activities provided to the organization should be expressed clearly in an IA charter. Also the IA charter should be approved by senior management and the Audit Committee. IA functions should ensure that their mandate is revised and aligned with stakeholders' requirements and value perceptions if there is any change in shareholder expectations with time. Ideally, the IA charter should be a formal corporate policy, subject to annual review and approval by the Audit Committee.

In this way, it will be guaranteed that the IA charter accurately reflects the authority, responsibility and accountability assigned to the IA function and clearly articulates functional and administrative reporting relationships.

3. Reporting Lines as a Key Issue for Performance of Internal Audit Work

To be effective, IA must be both independent and objective in the performance of its work. To achieve organizational independence, the chief audit executive (CAE) should report to a level within the organization that allows IA to fulfill its responsibilities. Also, IA should be free from interference from operational management in determining the scope of internal auditing, performing work and communicating results.

The IIA's International Standards for the Professional Practice of Internal Auditing Practice Advisory, *Chief Audit Executive (CAE) Reporting Lines*, states that "The IIA believes strongly that to achieve necessary independence, the CAE should report functionally to the audit committee or its equivalent. For administrative purposes, in most circumstances, the CAE should report directly to the chief executive officer of the organization." Thus, the CAE should be positioned for success, with an appropriately senior place on the company's organizational chart and a mandate that clearly addresses purpose, authority and scope.

In Turkey, We witness companies with different corporate cultures for IA reporting lines. Figure 1 illustrates these practices in general.

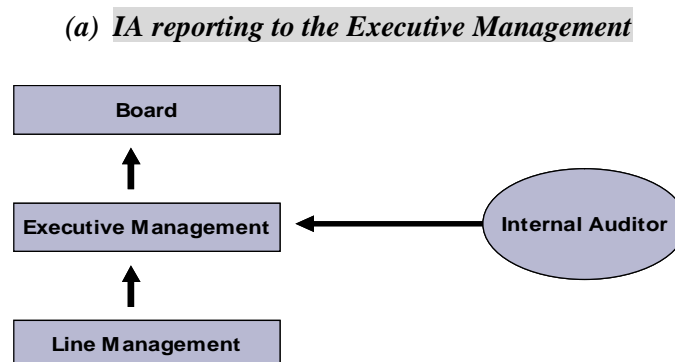
In practice, we believe that the ability of management to define and, therefore, to alter the roles of internal auditors potentially compromise IA independence and results in a weak IA function. Internal auditing is usually an operation within an organization, generally undertaken by staff (employees) of the organization.

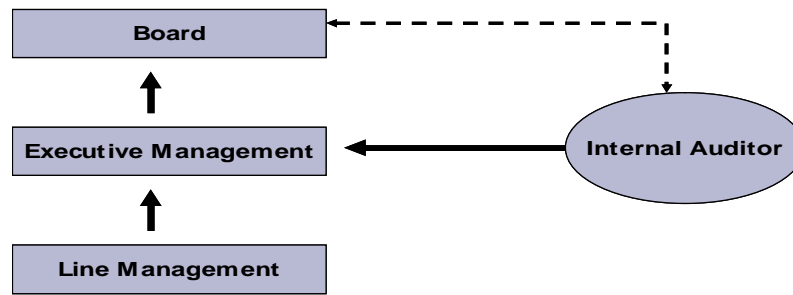
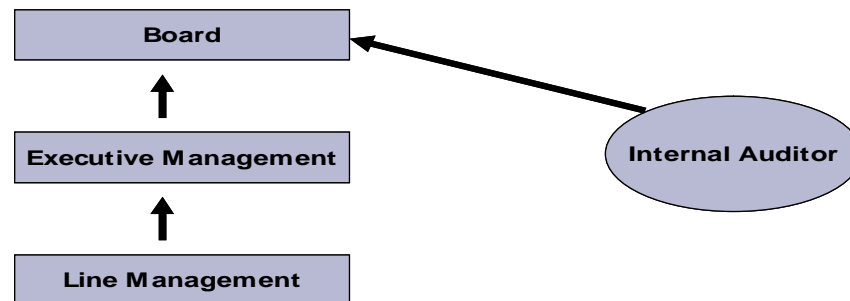
Thus, the IA function is often treated as a management function in which case it may not be possible to operate with an adequate level of independence which is contrary to the IIA Standards. It is also experienced that reporting to lower levels of management is not uncommon which undermines the authority and reach of the IA function.

Nowadays IA reevaluates its activities and focuses on stakeholder expectations and particularly on risk-based auditing. In this case, communication is the key determinant of a successful IA function. IA must communicate effectively with management and the audit committee to support them in the discharge of their corporate governance and stewardship responsibilities. Clear, concise, straightforward, relevant and timely communication-oral and written- is vital to the CAE's role. The CAE must be kept informed about the business issues in general, as well as about new strategic plans, new developments, initiatives, events and transactions in the organization.

As stated in the IIA Practice Advisory, *Relationship with the Audit Committee*, "In large part, the overall effectiveness of the CAE and audit committee relationship will revolve around the communication between the parties. Today's audit committees expect a high level of open and honest communications.

Figure 1: Alternative Reporting Lines of Internal Audit function



(b) IA reporting to both the Board and the Executive Management**(c) IA reporting to the Board**

If the CAE is to be viewed as a “trusted advisor” by the Audit Committee, communications is the key element.” Effective communication involves attempt from all parties. IA should encourage dialogue with senior management and the Audit Committee. In position, the Audit Committee should welcome and facilitate this type of ongoing communication, while also providing the CAE with direct access. It is commonly accepted that internal audit should be viewed as a “trusted adviser” for the organization and provided with a “seat at the table (IIA 2010 The IIA’s Quality...)”.

However, in order to maintain independence and objectivity of the IA function, it should not participate directly in the management decision making process. Rather be represented and consulted with on key decisions taken by the company. The true worth of IA is not measured in the weight of after-the-fact recommendations but in its ability to present just-in-time advice and persuade management for positive changes that adds value to the organization as an early warning mechanism against potential risks.

In today’s business world, change management is a core competency for successful companies that would like to build up to stay competitive. In this respect, IA spending is increasing since most of the organizations appreciate the value-added contribution the IA function can make in establishing, maintaining and improving corporate governance, risk management and internal control across the organization. Even though IA budgets are rising, CAE’s are being asked to do much more with far less. To achieve their challenging targets, internal auditors are revisiting their methods, processes, practices, capabilities and technology support to enhance efficiencies and effectiveness. The major examples in this area the use of key performance indicators to measure, investigate and respond to business performance issues through techniques since no continuous auditing and continuous monitoring, control self assessment and using Computer-Assisted Auditing Tools&Techniques(CAATTs).

High-performing IA functions need effective leadership skills from members of the team- especially the CAE. The CAE sets the quality, promotes the importance of the IA functions and preserves the independence and objectivity required to effectively fulfill the IA mandates. The CAE must not only manage the IA function and help to attract and retain superior IA talent, but also possess the vision, foresight and drive to keep IA raising and moving to the next level. IA is governed by the IIA, promulgating a professional practices framework that includes mandatory guidance in the form of a Code of Ethics and the IIA Standards. As an essential requirement, internal auditors should comply with the IIA Standards.

The IIA Standards require ongoing and periodic assessment of the entire range of audit and consulting work performed by IA, including an ongoing internal quality assurance (QA) process with periodic reviews and an external quality assessment by a qualified independent reviewer every five years. And CAEs must develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity and helps internal auditors add value in this connection with the IIA Standard 1300:Quality Assurance and Improvement Program. QAIPs that are in conformance with the Standards consist of three elements (i.e.Ongoing internal monitoring, periodic internal QAs, and periodic external QAS) (IIA, Attributes of Highly...2010, 6)

In brief, IA should take necessary steps to guarantee its activities undergo quality assessment to ensure it is at the forefront of leading practice (IIA 2008 Ensuring...).

Quality assessment programs should include valuation of the following: (1) Compliance with the IIA Standards and Code of Ethics, (2) Adequacy of IA's activities, charter, goals, objectives, policies and procedures, (3) Contribution to the organization's corporate governance, risk management and internal control processes, (4) Compliance with applicable laws, regulations and government or industry standards, (5) Effectiveness of continuous improvement activities and adoption of best practices, and (6) Improvement of the organization's operations and whether the auditing activity adds value.

Table 2: Factors being Valuated in Quality Assessment Programs

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| <ul style="list-style-type: none"> • Compliance with the IIA Standards and Code of Ethics • Adequacy of IA's activities, charter, goals, objectives, policies and procedures • Contribution to the organization's corporate governance, risk management and internal control processes • Compliance with applicable laws, regulations and government or industry standards • Effectiveness of continuous improvement activities and adoption of best practices • Improvement of the organization's operations and whether the auditing activity adds value |
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It is observed that several IA departments already fulfill or are in the process of complying with these requirements. Some are now looking beyond compliance and are benchmarking themselves against leading practices to encourage continuous improvement within the IA function. Others have come to realize that the IA function needs to change significantly from its existing structure. In these cases, IA functions and their Audit Committees take a transformational approach, working with outside advisors to redirect and reorganize to meet current reality, expectations and needs to stay competitive in the business world.

Top-performing IA functions are dedicated to high quality, value and satisfaction and they use balanced scorecards to assess their contribution to the organization in quantifiable and measurable terms. It is a fact that considering the current regulatory reform and the changing business environment in many industries, the future for IA has never been brighter. As the expectations of stakeholders grow with regard to IA's performance, internal auditors will benefit deeply by employing these key strategies detailed here. And as IA's role keep on progressing, there is more opportunity to take the IA function to the next level and to improve the effectiveness of corporate governance, risk management and internal control within the organization that will generate true value to the enterprise as a whole. In this way, modern IA contributes to the building of a sound corporation.

4. A Brief Glance At The Gain Studies of IIA

GAIN stands for Global Audit Information Network, and it is The IIA's premier benchmarking program. GAIN is known as a knowledge exchange, a forum for: Learning from the challenges and solutions of your peers; Gaining leading internal audit practices from top organizations; and Enhancing your operational effectiveness and efficiency (IIA 2013). Internal auditors have a long tradition of networking and sharing knowledge with each other. This idea of "Progress through Sharing" has been the philosophy of The IIA, and it is the strength and backbone of GAIN and its members.

The GAIN Annual Benchmarking Study is a comprehensive annual benchmarking study that allows organizations to benchmark their internal audit activity easily, affordably, and transparently. GAIN is a comprehensive annual benchmarking study with participants in 16 industries, over 100 sub-industries, and over 40 countries. The GAIN Annual Benchmarking Study allows the IAs and organizations to benchmark their internal audit department easily, affordably, and transparently. In other words the GAIN Annual Benchmarking Study can help the unlock real answers to organizational questions. It may also let them compare their audit department's size, experience, and other metrics against the averages of similar organizations in peer groups that they choose. These Metrics include (IIA 2013); Organizational statistics; Department staff in hand costs; Oversight including audit committee information; Operational measures including audit life cycles; Performance measures; and Risk assessment and audit planning information.

The GAIN Annual Benchmarking Study benefits the IA and their organizations in different ways. For instance; GAIN gives IA a way of sharing to non-audit audiences how we compare against other groups in similar industries of similar size and approach. They use GAIN to gauge their audit department practices against best practices and provide assurance that we are a productive and leading edge audit organization. GAIN provides them with statistics on a particular subject that can be incorporated into a proposal to management. Furthermore, GAIN is one of the tools in their kit for measuring their performance and organization (IIA 2013).

5. Performance Management and Performance Metrics for Measuring Internal Audit activity

Performance management is the systematic process by which an organization involves employees as individuals and members of a group in improving business effectiveness in the accomplishment of mission and goals. Employee performance management activities include; Planning work and setting expectations; Continually monitoring performance; Developing the organization's capacity to perform; Periodically rating performance in a summary fashion; and Rewarding good performance (IIA, GAIN, Measuring IA performance 2009). As evident in many organizations, performance management activities are not limited to individual employees only. The process also is used to measure an organization's or department's success rate in accomplishing strategic goals and objectives and in determining a business process' or service' effectiveness, efficiency, and quality.

A number of steps which senior managers can follow prior to developing a performance management plan for their business unit, department, or process. These steps include (IIA GAIN Measuring IA Performance 2009); 1) Reviewing organizational goals, which are established during the strategic planning process, to associate preferred results in terms of units of performance (i.e., quantity, quality, cost, or timeliness), 2) Specifying desired results for the domain (i.e., the business unit, department, or process). 3) Ensuring the domain's desired results directly contribute to the organization's results. 4) Weighting or prioritizing the domain's desired results. A weight is often expressed in the form of a percentage of time spent performing an activity or as a numeric ranking (e.g., ranking an activity's effectiveness from 1 to 5 using 5 as the highest ranking). 5) Identifying first-level measures to evaluate if and how well the domain's desired results are achieved. 6) Identifying more specific measures for each first-level measure if necessary. 7) Identifying standards for evaluating how well the domain's desired results are achieved. 8) Documenting a performance plan that includes desired results, measures, and standards.

Establishing a performance measurement process is very crucial for measuring of effectiveness and efficiency of IA activity. To create effective performance measures, the chief audit executive (CAE) needs to establish a process for:

- Identifying critical performance categories such as stakeholder satisfaction, internal audit processes, and innovation and capabilities.
- Identifying performance category strategies and measurements. Strategies should be pursued in compliance with IIA Standards, other applicable professional standards, and applicable laws and regulations and should ensure stakeholder satisfaction. The use of performance measures can be an element of the internal audit activity's internal assessment process to comply with The IIA's Standards.
- Routinely monitoring, analyzing, and reporting performance measures.

The process could follow these types of steps:

Table 3: Steps for Establishing the Performance Measurement Process

<p>Define Internal Audit Effectiveness:</p> <ul style="list-style-type: none"> • Review relevant IPPF guidance including Standards. • Review the strategic plans of the internal audit activity and organization. • Review the board, audit committee, and internal audit activity charters. • Assess basic, expected, and targeted/preferred internal audit activity deliverables. • Formulate an initial definition of internal audit effectiveness and efficiency. • Define agreement from key stakeholders of the definition of effectiveness and efficiency
<p>Identify Key Internal and External Stakeholders:</p> <ul style="list-style-type: none"> • Determine key internal and external stakeholders for the activity and organization. • Determine who directly or indirectly relies upon the internal audit activity's work. • Determine who benefits, directly or indirectly, from the internal audit activity's work. • Consider who supports the internal audit activity
<p>Develop Measurements of Internal Audit Effectiveness:</p> <ul style="list-style-type: none"> • Understand key stakeholders' expectations of the internal audit activity. • Understand what internal audit attributes, deliverables, and capabilities key stakeholders value and related shortcomings or advancements in these areas. • Develop measurement tools such as a balanced scorecard to document relevant attributes of effectiveness and efficiency and related performance against these. • Agree upon effectiveness and efficiency metrics with key stakeholders
<p>Monitoring and Reporting Results:</p> <ul style="list-style-type: none"> • Establish an agreed upon format and frequency for reporting that considers the organization's size, nature, and governance structure. • Establish a periodic review of such monitoring and reporting to ensure relevance, efficiency, and effectiveness. • Use the results of reporting to shape and guide internal audit activities. • Align internal audit activities to the defined measures of internal audit effectiveness and efficiency

Source: (IIA. 2010. *Measuring Internal Audit Effectiveness and Efficiency*, 4-5)

Selecting the right performance metrics is also very important. An example containing the main steps for selecting the right performance metrics is given as follows.

Table 4: Main steps for selecting the right performance metrics

<p>Prior to the selection process:</p> <ol style="list-style-type: none"> 1. Perform an inventory of the metrics being used and ensure they reflect industry and organizational trends as well as changes in the scope of internal audit responsibilities. 2. Consider existing organizational performance reporting processes, stakeholder expectations, professional requirements, and the internal audit staff's maturity level. 3. Review the internal audit activity's mission and vision statements.
<p>During the selection process:</p> <ol style="list-style-type: none"> 1. Brainstorm and identify new metrics. 2. Identify links between selected metrics and the department's mission and values. 3. Categorize metrics into logical groups (i.e., staff development metrics, audit plan management metrics, client satisfaction and coverage metrics, and value creation metrics). 4. Rank and prioritize metrics within each group. 5. Select the top two or three metrics by category. 6. Accumulate data from the top two or three metrics and establish a performance baseline. 7. Report the data to the internal audit activity, senior management team, and board and audit committee. 8. Solicit feedback from stakeholders and implement continuous improvement techniques.

Source: IIA GAIN *Measuring IA Performance* 2009, 3

And also, one of the top responsibilities of CAE is assurance (i.e. providing reasonable assurance on the effectiveness of the organization's internal control environment) (IIA GAIN Becoming More Effective CAE, 2009). IIA recommends to CAEs to use four major performance metrics categories as follows: (1) Staff development metrics (2) Audit planning and management metrics (3) Client satisfaction metrics (4) Value creation metrics (IIA GAIN Global 2009,3-4).

Table 5: 4 Major Performance Metrics Recommended to CAEs by IIA

1) Staff development metrics
2) Audit planning and management metrics
3) Client satisfaction metrics
4) Value creation metrics

Source: IIA, GAIN Global 2009.

A balanced scorecard developed by Robert Kaplan and David Norton (2001), is an approach to corporate performance measurement that is to identify success by breaking down the overall vision and strategy of an organization into specific objectives, targets, measures, and initiatives (IIA GAIN Benchmarking 2007).

Internal auditors are increasingly using surveys to assess objective and subjective data, and to review intangible topics. Surveys as being another instrument for assessing data, are particularly suited for reviewing intangible to picssuch as the ethical environment and entity-levelcontrols, which require an examination of soft controls including integrity, values, accountability, leadership, openness, andcompetence (murdochandroth 2009).

IIA conducted in November a survey namely, GAIN Flash Survey (2008), which was responded by CAEs and other audit managers on performance monitoring and quality assurance program activities.

Survey participants in Turkey also indicated their choice of tools for quality assurance and the top five tools used by survey participants in details as follows:

Table6:SurveyResults of theChoice of Tools forQualityAssurance in Turkey

	Percentage (%)
1) Compliance with the audit plan (i.e., number of audits planned versus executed	93
2) Compliance with a budget	81
3) Satisfaction surveys from auditees	77
4) Audit time management (i.e., planned versus real planning, fieldwork, and report writing	59
5) Reporting time management (i.e., planned versus actual reporting time	59

Source: IIA, PerformanceMonitoring 2008.

Depending on the findings of this survey for Turkish implementation, 77 percent of all the respondents have a formal or informal performance monitoring and quality assurance program (see the table below).

Table7: Tools Used to Monitor Performance and Assurance Quality in Turkey

Response	Frequency (%)	Count
Compliance with a budget	81.4	2
Compliance with the audit plan (number of audits planned vs. executed)	92.9	05
Audit time management: Planning, field-work, closing (plan vs real)	59	7
Reporting time management (plan vs real)	59.3	7
Efficiency in the use of resources (e.g. tests per day, man-days per audit, etc.)	15.9	8
Number of recommendations offered	16.8	9
Number (or percent) of recommendations implemented	32.7	7
Number of key findings deducted	10.6	2
Cost recovery (audit savings)	14.2	6
Auditor training metrics	53.1	0
Satisfaction surveys from auditees	77	7
Satisfaction surveys from audit committee	14.2	6
Audit complaint records	8.8	0
Number of management requests	26.5	0
Role of internal auditing viewed by the audit committee	36.3	1
Role of internal auditing viewed by the auditee	16.8	9
Travel time	9.7	1
Balanced scorecard	20.4	3
GAIN's top performance measures	10.6	2
Identification of best practices	22.1	5
Other	8	9
Valid responses		112
Total responses		112

Source: IIA, GAIN Flash Survey, 2008.

Regarding the IIA Annual Benchmarking Study (2009), internal audit departments have %63 ongoing Quality Assurance Processes while %37 have periodic Quality Assurance Processes as audit universe at Figure 2. Regarding the percentages they are in line with public and private sector.

Figure 2: Performance of Internal QAs

	Ongoing Reviews (%)	Periodic Reviews (%)
Private	62	38
Public	61	39
Non-Profit Organizations	56	44
Universe	63	37

Source: IIA, GAIN Annual Benchmarking Study, 2009.

Participants to this study declare that they use different tools of internal audit QAs for ongoing process and periodic process. The major tools used by the auditors are shown at Figure 3. The most common way of continuous monitoring the internal audit activities are engagement supervision (%93), audit planning (%89) and feedback (%86). Since auditing requires a formal engagement process within the organization, the successful monitoring and supervision of engagement execution is important for quality assurance. In addition, the audit planning is also very crucial for the success of audit field work and time management. As a last step for the audit field work, the feedback mechanism is considered to be value added tool for ongoing internal QAs of internal audit.

Figure 3: Tools Used for Ongoing Internal QAs in Turkey (%)

	Engagement supervision	Checklists	Feedback	Project budgets	Timekeeping systems	Audit plan completion and summery reports	Cost recoveries	Other performance metrics
Private	85	76	80	55	69	89	9	42
Public	95	83	88	65	73	91	14	59
Non-Profit Organizations	100	100	100	100	89	89	-	44
Universe	93	81	86	65	73	89	14	54

Source: IIA, GAIN Annual Benchmarking Study, 2009.

In addition to ongoing internal QAs, there is a need for periodic internal QAs conducted by internal audit departments. The major tools used for periodic internal QAs are shown at Figure 4. Based on the survey findings of IIA GAIN Annual Benchmarking Study (2009), control self assessment is the most common tool (%78) among participants. Control self assessment is encouraged by IIA since it is cost efficient and practical way of QAs for internal auditors.

Figure 4: Tools Used for Periodic Internal QAs in Turkey (%)

	In-depth interviews	Self-assessment	Certified Internal Auditors	Combination of self-assessment and preparation	Benchmarking
Private	40	69	11	27	64
Public	36	78	10	26	74
Non-Profit Organizations	33	89	11	56	78
Universe	39	78	11	27	66

Source: IIA, GAIN Annual Benchmarking Study, 2009.

Internal auditors should consider the level of stakeholder satisfaction and there are methods used to measure stakeholder satisfaction which are shown at Figure 5. The first one is the interview and stakeholder meetings organized by CAEs to understand the needs and expectations of stakeholders in detail. In practice interviewing may be time consuming and not easy to bring all related parties together at the same time and same location. In this situation, CAEs prefer as a second choice to make surveys or questionnaires to get feedback from stakeholders. Discussions with the stakeholders to get their expectations and measure the satisfaction levels are useful and lead to improvements in time; either it is achieved by face to face meetings and/or surveys.

Figure 5: Methods Used to Measure Stakeholder Satisfaction in Turkey (%)

	Interviews/Stakeholder meetings	Facilitated sessions	Surveys/Questionnaires	Performance metrics/Key performance indicators	Providing savings or cost avoidance statistics	Other
Private	65	-	67	41	6	7
Public	69	5	81	53	14	7
Non-Profit Organizations	78	-	78	33	-	11
Universe	67	3	78	45	9	8

Source: IIA, GAIN Annual Benchmarking Study, 2009.

The performance of internal audit process should be measured as KPIs both for internal audit departments and CAEs. According to the IIA’s GAIN Annual Benchmarking Study results (2009), CAEs use audit plans and audit methodologies to evaluate internal audit process. Details of study are shown at Figure 6.

Internal audit process is an integrated practice and it is important to understand the logic behind each step of internal audit process to satisfy the stakeholder needs and expectations in an organization. Planning is the crucial step and there is a need for appropriate audit plan established for each engagement including audit scope, objective, timing, resources allocation. Secondly, the success of audit fieldwork is directly related to the audit methodologies and working process. CAEs should combine and coordinate the team with a well-planned audit program and modern internal auditing techniques to have a successful audit process.

Figure 6: Methods Used to Measure Internal Audit Processes in Turkey (%)

	Feedback is obtained from key stakeholders on whether or not the audit activity has effectively addressed risk concerns	Audit activity assesses the extent that key risk areas are being addressed	Appropriate audit plans are established for each engagement including scope, objectives, timing, and resource allocation	Audits are performed in accordance with established audit methodologies and working practices	Feedback is obtained from key stakeholders on the quality, level of detail, and frequency of audit communications	Internal audit activity measures the degree that key recommendations are implemented	The internal audit activity identifies and monitors performance metrics and key performance indicators
Private	73	73	86	80	64	63	55
Public	78	73	93	94	73	78	67
Non-Profit Organizations	78	78	89	89	56	78	56
Universe	75	71	91	90	69	74	63

Source: IIA, GAIN Annual Benchmarking Study, 2009.

Last but not least, the internal audit capability and innovation should be measured to achieve a successful internal audit activity in an organization. Depending on the IIA’s GAIN Annual Benchmarking Study (2009) the trainings, certifications and achievement of goals and objectives of internal auditors are important indicators of capability and innovation for internal auditing.

Figure 7: Methods Used to Measure Internal Audit Capability and Innovation in Turkey (%)

	Measurements are in place to ensure that audit staff receives sufficient training	Audit staff satisfaction with training is measured	The number of staff certifications is measured	Goals have been established for staff training in the use of technology	Goals have been established for using technology to effectively support audit testing and analysis	Measures are in place to ensure that staff has sufficient knowledge of industry, business, operations, key functions	Measures are in place to ensure goals and objectives are achieved	Identification and monitoring of performance metrics and key performance indicators	Measures are in place to benchmark our internal audit activity to leading practices	Overall time percentage allocation (budget vs. actual)
Private	71	47	75	35	31	59	78	63	57	35
Public	84	41	81	42	49	62	82	70	65	33
Non-Profit Organizations	89	56	67	11	22	56	67	22	56	22
Universe	83	42	79	35	41	59	78	66	58	29

Source: IIA, GAIN Annual Benchmarking Study, 2009.

After explaining the performance metrics of internal audit relying on the best practices in the world (i.e. IIA’s studies and surveys), we would like to make some practical recommendations for successful implementation in Turkey. First of all, it is a fact that as an emerging economy, Turkey is far from best practices of internal audit and there is a room for improvement to achieve the excellence internal auditing activities. The following information is useful tips for a confident implementation of internal auditing.

When implementing a performance management system for internal audit, it should be straightforward and simple to make all internal audit staff understand the goals. In addition, it is recommended to have limited number of performance metrics and these performance metrics must be directly related to the goals and objectives of internal audit activity. Internal audit department is a supporting line in an organization and the success of internal audit totally depends on the endorsement (empowerment) of top management (i.e. management board, audit committee, Chief Executive Officer (CEO) etc.). Hence, Chief Audit Executives (CAEs) should make sure that top management understand the entire methodology and performance metrics and also determine which methodology and/or performance metrics top management is most interested in.

When adapting a methodology and/or performance metrics, CAEs should consider the fact that internal audit activity includes the following key issues: risk based audit planning, stakeholders, value added, audit process, quality, execution of audit planning, employee satisfaction and risk coverage. Each of them are equally important and CAEs should understand the logic behind these issues to achieve a success in their implementation.

6. Conclusion

The major performance metrics can be categorized in three main set, i.e. stakeholder satisfaction, internal audit process and capability and innovation related to audit staff and activities as a whole. In order to ensure the high performance of internal audit activity, IIA recommends Standards, Code of Ethics and also Quality Assurance (QA) services both done by internally and externally. It is important to note that regardless of which performance metrics and/or methodology to be used as performance management tool, CAEs should think their organizational culture, needs and scope to decide the best fitting way for the strategic goals. Measuring the internal audit performance is a global issue and it is needed to satisfy all stakeholder expectations. CAEs should consider this fact to achieve successful implementations. In such a global and competitive environment, internal audit professionals should also take into account this to add value to their organizations. Turkey is no exception and internal audit professionals should follow the best practices and recommendations of IIA to close the gap in a short period of time. It is a fact that new Turkish Commercial Code may accelerate the adaptation process in Turkey. Most of the SMEs in Turkey need to reconsider their organizational structure regarding the corporate governance principals including the internal audit functions to gain more competitive advantage and high performance in the long run.

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