

Internal Audit Function in Tunisian Listed Companies: An Explanatory Study

Ahmed Atef Oussii

Higher Institute of Accounting and Business Administration, University of Manouba
ISCAE- Campus universitaire, 2010 - Manouba - Tunis

Neila Boulila Taktak

Higher Institute of Management, University of Gabes, ISG Gabes, 6002 - Gabès, Tunisie

Acknowledgments

We thank the Institute of Internal Auditors of Tunisia and Zied Boudriga for access to the Institute database. We also thank all internal auditors who participate to our survey for their helpful suggestions.

Abstract

Purpose – The aim of this paper is to explore the attributes and activities of the internal audit function in Tunisian listed firms and evaluate its capacity to fulfill its role in corporate governance process.

Design/methodology/approach – The study has been carried out through a questionnaire survey that aims to analyze internal audit function (IAF) characteristics in Tunisian listed firms. The main aspects of this study were: insourcing versus outsourcing arrangements of the internal audit function; organizational status; internal audit activities and internal audit interaction with external auditors. **Findings** – The findings of the study show that despite its changing role within the organization, the internal audit function suffers from some limitations that impair its independence and limit its intervention field. Also, internal audit function in Tunisian listed companies is focused on financial audit, internal controls and risk management assessment. Further analysis reveals a considerable level of coordination between internal and external auditors. **Research implications** – The paper's findings are of interest to several different parties, primarily the professional internal audit body, chief audit executive (CAE), audit committee and senior management. **Originality/value** – The paper describes an empirical study, conducted on a sample of Tunisian listed companies, which provides a better understanding of the internal audit function attributes and activities. The paper is also a meaningful contribution to the internal audit literature, as it examines an interesting subject that has not yet been largely investigated in the context of emerging market.

Keywords - Internal audit function - Corporate governance - Listed companies - Tunisia

Paper type - Research paper

1. Introduction

The recent financial scandals have shaken the world of business and deteriorate the confidence in the audit firms and financial reporting quality. Furthermore, these dysfunctions revive the debates on the questions about the opportunism of managers and to the efficiency of the internal mechanisms of governance (Charreaux, 1997). The role of the internal audit function in the global process of audit and its contribution to the corporate governance quality seem to be at the heart of these concerns (Johl & al., 2013; Gramling & al., 2004). However, it is only recently that the internal audit is beginning to attract the attention of policy makers and different regulators at national level (Sarbanes-Oxley Act 2002 in the USA; Combined Code 2000, 2009 in the UK; CLERP 9, 2004 in Australia; Unified Good Governance Code 2006 in Spain; and Corporate Governance Code 2009 in Germany) and also at an international level (IFAC, 2006; OECD, 2004).

This has resulted in increased promulgation of best governance practices reports, encouraging the greater recognition of the internal audit function as one of the four cornerstones of corporate governance (Gramling & al., 2004). Besides, the importance of the internal audit function was supported by the New York Stock-Exchange. The latter obliges all listed companies to be endowed with an internal audit function (NYSE, 2002). Similar regulations were recognized by Tunis Stock Exchange since 1997. On the academic side, the literature sees influenced by these events and studies have been conducted to analyze the effectiveness of the internal audit function (Carcello & al., 2005; Nagy & Cenko 2002, Rittenberg & al., 1999) and its impact on corporate governance, especially in terms of quality reporting and firm performance (Johl & al., 2013. Bame-Aldred & al., 2013; Lin & al., 2010; Pizzini & al., 2010; Prawitt & al., 2009; Mihret & Hirth, 2008; Archambeault & al., 2008; Jeffrey, 2008; Gramling & Myers, 2006; Zain & al., 2006; Gramling & al., 2004; Spira & page, 2003).

Several studies have attempted to analyze the current state of internal audit function, its role, its organizational position and scope of services in developed countries (Pappe & al., 2003; Cenko & Nagy, 2002; Carcello & al., 2005; Goodwin & Kent, 2006; Arena & al., 2006; Sarens & De Beelde, 2006). However, only

few studies have examined the characteristics of the internal audit function in the context of emerging countries (Ebaid, 2011; Mihret & Yismaw, 2007). Thus we propose to extend this research problem to the Tunisian context.

The purpose of this study is to explore the nature and role of the internal audit function in listed Tunisian companies. The choice of the Tunisian context to study the quality of the internal audit function seems to be interesting for various reasons.

First, Tunisia whose economic and financial environment has experienced already some financial scandals such as the case Batam, has also initiated many reforms in order to strength regulations related to audit and internal control to protect investors' interests and restore the confidence in financial market and auditing profession. Besides, the regulations concerning the practices of internal audit required that all listed companies should maintain an independent internal audit service managed by a CAE who reports functionally to the audit committee. The remainder of the paper is as follows. First we briefly describes the institutional setting of internal audit function in Tunisia. Second we provide a literature review on concerning on the attributes of internal audit function and the scope of its activities. Next, we develop the reserach method. The last two sections discuss the results and present a summary conclusion.

2. Institutional setting of internal audit function in Tunisia

In Tunisia, regulations on internal audit function and audit committee are recent. These rules provide an essential distinction between listed companies or not. In order to facilitate understanding of these requirements, the presentation is made chronologically.

- The Tunisian accounting system

The accounting system, promulgated by the Law n°96-112 of December 30th, 1996, planned a general framework characterizing the internal control which should model the working approach of the internal auditors. The objective of this shutter is to enable the companies to estimate and to improve their internal control system.

- The banking sectorial standard N ° 22

The banking sectorial standard N 22 recommends the institution of audit committees in the Tunisian banks since 1999. However, the majority of banks proceeded to the institution of the audit committee only after the promulgation of the law n°2001-65 for credit institutions.

- The article 38 of the general regulation of Tunis Stock Exchange

According to the article 38 of the general regulation of Tunis Stock Exchange, (approved by the order of The Minister of Finance of February 13th, 1997 and modified by the orders of September 9th, 1999, September 24th, 2005, September 24th 2007 and of April 15th, 2008), Listing requirements demanded the implementation of an internal audit function for all listed companies. Indeed, the aforementioned article stipulates that internal audit function has to be the object of an appreciation by the external auditor in its sepecial report about the company internal control process.

- The Law N°2001-65 for credit institutions

The article 34 of this law stipulates that credit institutions and banks have to set up a system of internal control and an audit committee. Articles (8, 10, 17, 48, 51, 52, 54, 56, 57, 58, 59, 60, and 61) emphasized the composition, the skills, the independence and the activity of the audit committee members.

- The Law N°2005-96 of October 18th, 2005 on strengthening of the security of financial relations

The article 256 bis of the Code of Trading companies, added by the article 12 of the law n°2005-96 of October 18th, 2005 on strengthening of security of the financial relations widened the scope of internal audit function. In fact, inernal auditor has to make sure that the internal control system is set up well and works correctly to guarantee a general politics of financial, fiscal and social transparency. Besides, the article 256 bis, required the creation of audit committee for listed companies. The aforementioned article still fixes the composition, the responsibilities and the rules of independence of audit committee.

- The good-governance handbook

More recently, the works introduced by the Tunisian Center of Corporate Governance in association with the Arabic Institute of Business Leaders ended in 2007 in the preparation of a "Good corporate governance code". This document updated in 2009 and in 2012 recommended, among others, to large Tunisian companies to be equipped with audit committees and with internal audit function. However and contrary to numerous developed countries, the rules included in the guide are neither compulsory nor enforceable. The purpose of these rules is to promote a responsible and transparent behavior in the management of companies, according to the international governance best practices.

3. Background and literature review

The evolution of the internal audit was stressed by the promulgation of a new framework in 1999. This led to the important evolution of the role and the scope of the internal audit work within the various organizations (Abdolmohammadi & al., 2006; Cooper & al., 2006; Allegrini & al., 2006). In this context, the internal audit was

defines as being: "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, 1999, 2004).

By underlining that the reach of the internal audit covers the activities of insurance and advice, the new definition supposes that the internal audit function passed from insurance and conformity areas (Skinner & Spira, 2003), to a value-adding activity (Rittenberg & al., 1999; Chapman & Anderson, 2002). Such perspective widens considerably the field of intervention of internal audit to include risk management process and governance control (Hirth, 2008; Jeffrey, 2008). The internal audit function constitutes a tool that helps the organization to achieve its objectives through the use of diverse techniques according to missions' nature, field and complexity (Boudriga, 2012). The IIA (1999) also recognized that the internal audit function could be outsourced. Indeed, according to the IFACI (2001), the scope of intervention of internal audit is being particularly wide; the internal audit function may not have all the necessary knowledge and experience to carry out effectively its work. So, the outsourcing of internal audit activities could be extremely beneficial. In this study, we are particularly interested in the following aspects: The insourcing versus outsourcing of internal audit function (1) the organization status of internal audit function (2), the activities of internal audit function (3) the internal auditors' interaction with the external auditors (4).

3.1. Insourcing vs Outsourcing of the internal audit function

Prior studies suggested that the insourcing of the internal audit seems more effective with regard to the outsourcing of the works of internal audit. This is explained by the fact that "in house" internal auditors are more engaged and still have extensive knowledge on the internal and external business environment (Carey & al., 2006). However, other studies underline that the external suppliers of internal audit services are endowed with a wide range of skills which allow them to lead effectively their works (Speklé and al., 2007). In this context, a survey led by the IIA (2002) finds that 54 % of respondents have some or all of their internal audit activities. In fact, the alignment of the internal audit function choice and the executive management interests can damage the objectivity and the independence of internal auditors.

It is the way, the works achieved by an external provider of internal audit activities can be perceived as being more reliable than those made in house (James, 2003; Glover & al., 2008; Ahlawat & Lowe, 2004). The results of the experimental study of Glover & al., (2008) conducted among 127 external auditors indicate that they rely more on the work done by the external provider compared to those made in-house. This result is explained by the fact that internal auditors belonging to the audited company may face different incentives that undermine their independence and objectivity. Thus, the external firm to which the internal audit tasks are assigned is perceived to be more objective (Glover & al., 2008).

In a subsequent study, Desai & al., (2011) find that external auditors rely more on the internal audit work made by an external provider. However, this reliance decreases when tax advisory services are also provided by the same audit firm. This finding corroborates the results of the study of Brandon (2010). In this context, the Sarbanes-Oxley act (section. 201, 2002), prohibits the outsourcing of internal audit services to the company external auditor. This reform was motivated by the belief that outsourcing creates an economic link between the external auditor and their clients, which weakens his ability to take strong positions against misreport and fraud (Prawitt & al., 2012). Abbott & al. (2012) found that the outsourcing of internal audit activities reduces external audit fees. However, this advantage of outsourcing disappears when the internal audit function reports functionally to the audit committee and dispose of sufficient resources.

3.2. Attributes of internal audit quality

The second aspect which we expose focuses on the attributes of internal audit quality. In fact, prior studies have mainly focused on the independence and competence of internal auditors. The first studies on internal audit date from the 1970s and were conducted essentially in the United States following the promulgation of the standard SAS 65 by the AICPA in 1975. These studies have attempted to identify and assess the quality of the internal audit function as perceived by the external auditors. DeZoort & al. (2000) suggest that incentives based compensation that internal auditor received, especially, those depend on reported earnings could alter internal auditor objectivity and independence with regard to the executive management. Schneider (2003) suggests that incentive compensation related with stock prices, affect the internal auditor's reporting decisions. Thus, internal auditors tend to accept accounting principles violations less frequently. James (2003) finds that in-house internal audit function that report to executive management is perceived by lending officers as less able to provide insurance and investors protection against fraudulent reporting with regard to in-house internal audit function that report functionally to the audit committee. In the Australian context, Leung & al. (2004) find that the majority of CAEs, are functionally linked, to the audit committee. Only 22% of chief internal audit executives report exclusively to CEO or CFO. Peursem (2005) suggests that three factors which have an impact on the

capacity of the internal auditors to preserve their independence with regard to the management. These factors are: internal auditors' organizational position, the presence of a network of formal and informal communication, and the place of internal auditors' in the fixation of their role. Christopher & al., (2009) suggest that the independence of the internal audit is threatened in these situations:

- When the internal audit function is used as a stepping stone to other positions,
- When the management approve the internal audit function's budget and derminate the internal audit plan and missions,
- When the CAE report functionally to the executive management,
- When the audit committee does not intervening for appointing, dismissing, and evaluating the CAE.

Regarding the competence of the internal audit, Zain & al. (2006) suggest that the level of experience constitute a presumption of the quality of internal audit. Gramling & Hermanson (2009) argue that qualified and competent internal auditors are indicative of the quality of internal audit. Gramling & Myers (2006) point out that the certification of internal auditors is seen as a strong signal of the effectiveness of internal audit. Seol & Sarkis (2005) suggest that the choice of the internal auditor could be based on several categories skills namely: functional technical and personal and interpersonal skills. Moreover, Mihret & Yismaw (2007) suggest that the support of senior management is crucial in the acceptance and assessment of the internal audit function by the audited within the organizational units. In a recent study Prawitt & al. (2009) develop a composite index of internal audit quality measured by the competence, the objectivity, the time spent in financial activities and the size of the internal audit function. The results of this study revealed that the quality of the internal audit function is negatively associated with earnings management.

Pizzini & al. (2011) investigated whether measures of internal audit function quality and the IAF's contribution to the financial statement audit affect audit delay. Using data from 213 companies participated in the survey by the Global Audit Information Network (GAIN), the results of this study indicate that IAF quality is negatively associated with audit delay, suggesting that increases in IAF quality reduce external auditor effort. Audit delay is also significantly shorter when the IAF contributes to the external audit by independently performing relevant work, but not when IAF personnel directly assist the external auditor. The findings of the study conducted by Ebaid (2011) reveal that a large proportion of Egyptian listed firms have internal audit function, but internal audit function in these firms is less matured. Internal audit function has low levels of organizational independence, management support, and qualification of internal audit staff.

Also, the results reveal that internal audit function is still focused on financial audit and internal controls compliance and has not yet moved towards the expanded new role explained in Institute of Internal Auditors's new definition. Finally, the results indicate that there is a weak level of interaction between internal and external auditors in Egypt. These results suggest that internal audit function in Egyptian listed firms, in its current status, faces many difficulties that affect negatively its effectiveness in corporate governance

3.3. Internal audit function activities

The definition of the audit interns expressed by the IIA in June, 1999, stipulates clearly that the internal audit function has to help an organization accomplish its objectives by evaluating and improving the effectiveness of risk management, control, and governance processes. In this context, several academic studies have attempted to analyze the evolution of the scope of internal audit function activities (Coram & al., 2008; Nagy & Cenker, 2007; Allegrini & al., 2006; Cooper & al., 2006). Paape & al. (2003) conclude, on the basis of a survey conducted in 15 European countries that the risk assessment and risk management activities invade the internal audit function. In fact, two thirds of respondents said they receive advice in this area. According to Spira and Page (2003), recent corporate governance guidelines assume that the risks can be objectively identified and quantified. Therefore, control of the risk management techniques and the internal control system has become a source of energy that allows internal auditors to play a full role in their organization. Leung & al. (2003) show that the vast majority of internal auditors in Australian companies consider risk management and internal control improvement as the most important objectives of the internal audit function. Sarens & DeBeelde (2006) compare how internal auditors perceive their role in risk management within two samples of USA and Belgian firms. Their findings suggest that in Belgian companies, internal auditors play an important role in assessing the degree of risk and the formalization of an adequate system of control. In the USA firms, internal auditors provide a valuable contribution in align weaknesses with the disclosure requirements mentioned by the Sox Act (2002, section 404).

In this context, the internal audit function is responsible for assessing the internal control system. It also, provides to the audit committee, informations about internal control system weaknesses. Gramling and Myers (2006) findings reveal that internal audit function does not fulfill its role in the risk management assessment. In fact 50% of internal audit chief in the USA firms indicate that their audit function spent 10% or less of its hourly and financial budgets on risk management and related activities. The consulting activities have also been studied by Selim & al. (2009). The findings of this study show a significant increase in the practice of

consulting the UK, Ireland and Italy. In addition, activities related to risk management, project management, governance and contingency planning and recovery after disasters are most common in the UK and Ireland. Moreover, business consulting, compliance with laws, governance and risk management activities are the most frequent consulting in Italy.

3.4. Interaction between internal and external auditors

Both of internal audit standards and external audit standards provide guidance on how to achieve coordination and cooperation between internal auditors and external auditors. Indeed, The IIA standard N° 2050–Coordination, stipulates, “The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts” (IIA, 2012). For its part, the IFAC standard, ISA 610 encourages the external auditor to use the work of internal auditors in case these were considered reliable. In fact, the coordination between internal and external auditors seems to be essential for effective governance and high-quality reporting disclosure (Arena & Azzone, 2009; Goodwin, 2004). Moreover, findings of Felix & al. (2001), Haron & al. (2004), Glover & al. (2008) and Munro & al. (2010) show that the synergy resulting from this coordination would reduce legal audit fees.

More recently, with the emergence of audit committees, external auditors seem to have an additional source to help them in assessing the effectiveness of internal audit and to cooperate with in the collection of sufficient evidence (Bertin and Godowski, 2010). In addition, a considerable amount of research has attempted to explore the interaction between internal audit and external audit by analyzing the factors that influence the decision of external auditors to rely or not on the work of the audit internal as well as the consequences of this coordination (Singh & Newby, 2010; Glover & al., 2008; Gramling & al., 2004; Haron & al., 2004; Al-Twajry & al., 2004; Krishnamoorthy, 2002; Felix & al., 2001; Glover & al., 2008; Munro & Stewart, 2010; Suwaidan & Qasim, 2010). Overall, the results of these studies show that objectivity, competence and internal audit activities determine the reliance of the external auditor on internal audit work. Other studies have tried to analyze the impact of internal audit function on reporting quality (Lin & al., 2011; Pizzini & al., 2011). The results of this research found that the external auditors are more likely to detect significant weaknesses in the financial statements when they coordinate their efforts with the internal audit function.

4. Research method

4.1. Data collection

The research method involved three phases. The first phase of the survey consisted in presetting the questions and the items which are going to serve to explore the attributes and the activities of the function of internal audit in the Tunisian listed companies. The preselection takes place by choosing the questions used in prior studies (Lin and al., 2011; Ebaid, 2011; Pizzini & al., 2011; Prawitt & al., 2009) as well as those used in the international survey of the internal audit of the IIA (2013) and IFACI (2012). The second phase consists in conducting a series of interviews with 12 internal auditors working in Tunisian listed companies. The interviews took place between October 2012 and April 2013. Indeed, the main objective of this phase was to use qualitative research method to present a survey whose items fully reflect the Tunisian context. Furthermore, the information collected during the interviews was face to the list selected from a review of previous investigations issues. Thus, a final questionnaire was developed and tested with the collaboration of 6 specialists in audit (two academics, two internal auditors and two external auditors). This pilot resulted in minor changes that have improved the intelligibility of the questionnaire survey. The third phase of the study focused on sending the survey electronically to internal audit executives of listed Tunisian companies. This phase spanned from July 2013 to March 2014. Closed questions were used to avoid ambiguous interpretation and to facilitate statistical analysis. The questionnaire consisted of sections investigating the following aspects: (1) demographics of the internal audit structure, (2) attributes of the internal audit, (3) the nature and scope of internal audit activities and (4) interaction between internal audit - external audit. The first section consists of eight questions designed to explore the demographics of the internal audit function and the insourcing versus outsourcing arrangements of the internal audit function. The second section consists of eighteen questions analyzing the profile and role of internal auditors and other attributes of the internal audit function in Tunisian listed companies. In the third section, participants were asked to give their views concerning the nature and scope of work of the internal audit function within their institutions. Finally, the fourth section aims to explore the interaction between internal and external auditors. Respondents were asked to provide details of cooperation with the external auditor.

4.2. Sample

The questionnaire survey was sent by email to 70 companies listed on the stock exchange including banks and financial institutions. Consistent with previous research on internal audit (Ebaid, 2011; Abbott & al., 2010; Christopher & al., 2009; Carcello & al., 2005), the survey questionnaire was sent to officials of the internal audit function. About 54 CAE responded to the survey, a response rate of 77.14%. It should be noted here that the rate

of return in a similar study conducted in the Egyptian context by Ebaid (2011) was 19.3%, (21 chief audit executive). The response rate of our study seems therefore quite reasonable and our sample could be considered satisfactory for an exploratory analysis of the quality of the internal audit function in listed Tunisian companies.

5. Results

5.1. Demographic of the internal audit function

Analysis of the demographic characteristics of the internal audit function in the Tunisian listed companies surveyed indicated that all these companies are equipped with an internal audit structure. Moreover, the implementation of this function is required by statutory provision in all listed companies or publicly traded savings and banking and financial institutions. The analysis results also show that 93% of internal auditors have less than 50 years. This high proportion of young people is probably due to career changes proposed after 3 to 4 years of experience in the function. Clearly, the internal audit is a career accelerator. It allows you to be "spotted" and quick access to operational duties or financial positions. By its exposure and visibility with senior management, internal audit promotes internal mobility of its employees. Overall, the population is predominantly male among internal auditors. Moreover, the percentage of men in the team is on average 72%. This result contradicts confirmations Rahahleh (2010) and Ebaid (2011) who said that Arab women have been less engaged in career of internal or external auditor.

Table I: Distribution of internal auditors

	Percentage
1. The average age of internal audit staff	
- 20-29	0%
- 30-39	37%
- 40-49	56%
- 50-60	8%
2. Gender	
- Male	72%
- Female	28%

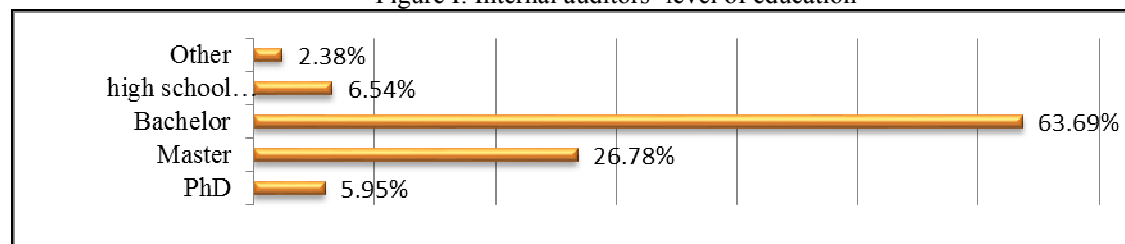
These results are also close to the statistics provided by the investigation of the IIA (2010) which reveals that half of the internal auditors surveyed between 31 and 45. Moreover, 31% of the respondents in France were under 35 and 25% in Europe. In the United States, the proportion of respondents aged over 45 years was 43% (37% in France). Overall, the population of internal auditors is predominantly male. In fact, the percentage of men in the IAF is on average 72% in Tunisian listed companies. Furthermore, and comparing these results with data from the CBook IIA (2010), it appears that the profession is relatively dominated by men. Only 38% of respondents in France are women. This percentage is 46% in the United States.

After analyzing the demographic characteristics of the internal audit function, the study examined the frequency of outsourcing internal audit work. Respondents were asked to indicate whether the internal audit function was carried out by "in house" internal auditors or by external service providers. The results show that 78% of Tunisian listed firms prefer to internalize the internal audit service. Thus, the IAF outsourcing occurs only rarely and for specified requiring very specific skills missions. These results corroborate the findings of the study conducted by Ebaid (2011) who found that 81% of Egyptian listed companies do not use internal audit external providers. However, these findings contradict the results of Carey & al. (2006) who found that 45% of Australian companies have outsourced all or at least part of their internal audit activities.

5.2. Internal audit function attributes

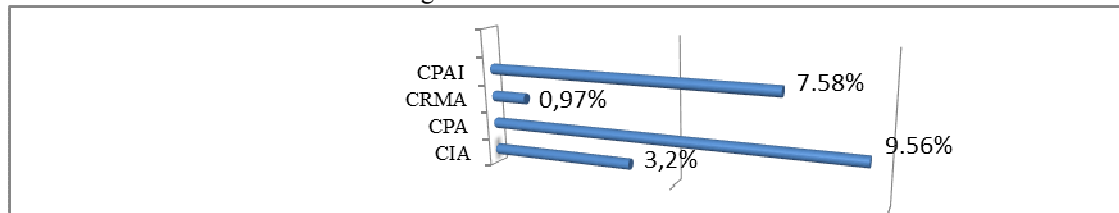
It is commonly accepted that the level of competence of internal auditors has a huge impact on the effectiveness of audits. Without proper knowledge, the scope and effectiveness of the internal audit are altered. Besides, the IIA standard-1210 requires that internal auditor should be equipped with the necessary skills and attitudes to fulfill its responsibilities. The results of our survey show that more than 90% of internal auditors are graduates from business schools.

Figure I: Internal auditors' level of education



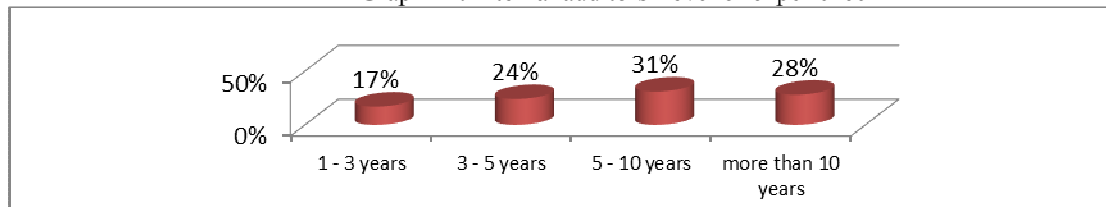
However, only 11% of internal auditors in Tunisian listed companies, have certifications or professional qualifications directly related to internal auditing (CIA, CRMA, CISA,..). In the same vein, 9.56% of internal auditors in listed companies surveyed hold the CPA diploma of accounting. These results suggest that, although the internal audit department in listed companies has a qualified staff, however, the majority of internal auditors practicing in Tunisian listed companies are not certified in internal audit.

Figure II: Internal auditors' certification



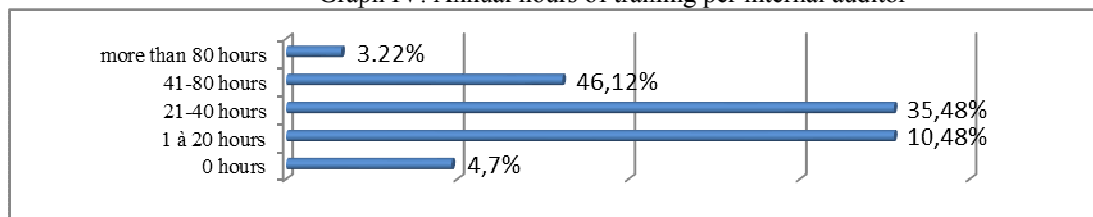
Concerning, the structure of the internal audit function, results show that, on average, this function is composed of 6 to 10 internal auditors. However, in some companies, the internal audit function is composed of a single internal auditor. Moreover, analysis shows that 60% of internal audit directors have over 5 years experience in internal audit. This can be explained by the fact that the sample consists of listed companies.

Graph III: Internal auditors' level of experience



Regarding training tools available to internal auditors, 46% internal audit managers surveyed said that each internal auditor to have participated in annual training 41 to 80 hours provided by the IIA Tunisia.

Graph IV: Annual hours of training per internal auditor



In addition, we attempted to analyze the role of internal audit in the organization through the study of the independence of internal auditors and their capacity to effectively fulfill their missions. In practice, the IIA standard N°1100 stipulates that internal auditors must perform their work with objectivity. Also, the CAE should report to a sufficiently level within the organization to enable the IAF to carry out its responsibilities.

The CAE should confirm to the board, at least annually, its function suffers no interference or when defining its scope of intervention or when performing work and communicating results (IFACI, 2013). Otherwise, respondents were asked about these authority prerogatives:

- ✓ who appoint, remove and fix the salary of the head of internal audit,
- ✓ who approve the budget of the internal audit function,
- ✓ who choose missions and approve the internal audit plan,
- ✓ who evaluate the work and follow the recommendations of the internal audit report.

As Table II shows, 93% of CAE claim that they are free from any interference in the exercise of their functions. In addition, 65% of respondents affirm they were met with the Audit Committee between 4 and 5 times a year. However, 17% of CAE say that they are functionally linked to the audit committee. In addition, 69% of CAE affirm that they do not have sufficient annual budget and 93% say that the CEO is responsible for their appointment and dismissal. These facts bring us to really wonder about the independence of internal auditors. In addition, the results show also that the remuneration of the internal audit manager is determined by the management in all of the companies surveyed. This remuneration is fixed and is not determined by the accounting profit or turnover achieved. Monitoring of internal audit recommendations is provided by the CAE in 55% of Tunisian listed companies.

While in 45% of Tunisian listed companies, the implementation of the recommendations is provided by the CEO or the head of the audited function. Regarding the audit plan, 89% of internal audit executives surveyed said it was approved by the audit committee and senior management at a time. In addition, the choice of internal audits is carried out by the CAE in consultation with senior management in over 76% of Tunisian

listed companies. These results indicate that the internal audit function in Tunisian companies listed does not enjoy a high degree of organizational independence in the sense that the CEO has an important role in the appointment, change and evaluation the internal audit function.

In addition, the internal audit function suffers from a lack of support from senior management, given that the function has no separate budget allocated to it in the majority of surveyed companies. This could have a negative impact on the effectiveness of the internal audit function and reduce, therefore, its ability to fulfill its role in the process of corporate governance.

Table II: Internal audit function attributes

<i>Survey questions</i>	<i>percentage</i>
During his mission, the internal auditor is under pressure from senior management and / or audited functions	
Yes	15%
No	85%
the audit plan is approved by (multiple answers possible)	
CEO	96%
Audit committee	85%
CFO	4%
The internal audit structure she has a separate annual budget?	
Yes	16.66%
No	93.33%
The CAE reports functionally to:	
Management	37%
audit committee	63%
Monitoring the implementation of corrective measures is the responsibility of :	
CAE	55%
CEO	31%
CFO	0%
the head of the audited unit	14%
Who is mandated to review and approve internal audit plan	
Audit committee	6,89%
Board of directors	76%
Senior management	17,24%
A part of the remuneration of the CAE depends on reported earnings?	
Yes	5.55%
No	94.45%
Over the past year you met with the Audit Committee:	
Other (6 times)	35.18%
5 times	9.27%
4 times	50%
3 times	5.55%

5.3. The internal audit function activities'

In addition, we looked at in the context of this study, to examine the nature and scope of internal audit activities listed Tunisian companies. Is it a traditional oversight function or rather an added value service. To explore the nature of the activities carried out by the internal audit function in their businesses, respondents were asked to respond to closed questions about the nature of internal audit missions, areas of intervention, the frequency of use quality assurance techniques, scoring the final internal audit report, the frequency of completion of the financial audit and monitoring the implementation of recommendations by the internal audit report corrective action. Thus, the results indicate that the key areas of intervention of the internal audit mainly cover: evaluation of internal control system, financial audit, operational audit, risk management and the prevention and detection of fraud. Thus, we note that the evaluation of the system of governance is not among the top concerns of internal audit in Tunisia. In addition, we find the financial audit is the major concern of internal audit functions in listed companies: the fact that 52% of CAE stated that their function spends at least 30 % of its time budget in the financial audit. Ultimately, these results suggest that the internal audit function in Tunisian firms listed companies is being gradually shifted from its traditional financial audit and internal control role to a new role, ensuring broader consulting activities and evaluation of risk management. These results are partly consistent

with those of surveys Paape & al., (2003) and Leung & al., (2003) suggest that the vast majority of internal auditors consider risk management as an important goal.

The IIA guidances suggest that (1) the use of fieldwork quality assurance techniques, (2) the inclusion of financial reporting processes in audit scope, (3) the communication of grades or summary opinions on control effectiveness, (4) the follow-up of previously identified control problems, are relevant to the financial reporting process. As Lin & al. (2011) note, Quality assurance techniques help ensure that IAF fieldwork is effective. These activities include: direct supervision, independent working paper review, solicitation of audit client feedback, peer review by fellow staff members, and the use of working paper checklists. The results of our study show that more than 82% of CAE do not include in their reports a score or a note of internal audit work results. Still, 69% of CAE do not provide a monitoring procedure to ensure the implementation corrective actions recommended by the IAF report. These results suggest that the quality of internal audit may be altered, given the limitations identified.

Table III: Internal audit function activities

<i>Survey questions</i>	<i>percentage</i>
What areas of responsibility does the internal audit activity oversee (choose all that apply)?	
risk management	79,3%
fraud derection	100%
governance process assesment and consulting engagements	10,34%
Operational audit	100%
internal control assesment	100%
financial audit statements	100%
Does th IAF provide an overall "score" for the internal audit work?	
Yes	17,25%
No	82,75%
As part of the monitoring process on observations and findings, does the CAE test the implementation of corrective action taken by the organization?	
Yes	31%
No	69%
What percentage of your audit plan is devoted to financial audit statements?	
less than 10%	3.70%
10%	13%
20%	14.85%
25%	16.62%
30%	35.18%
40%	9.25%
50%	5.55%
More than 50%	1.85

Table IV: The use of fieldwork quality assurance techniques in TLC

	<i>Never</i>	<i>occasionally</i>	<i>Regularly</i>
Direct supervision	13%	38.82%	48.14%
Independent working paper review	35.18%	51.85%	13.23%
Solicitation of audit client feedback	12.27%	22.22%	65.51%
Peer review by fellow staff members	46.29%	42.59%	11.11%
The use of working paper checklists	27.78%	38.88%	33.34%

5.5. Interaction between internal audit function and external auditor

Previous studies have highlighted the importance of coordination between internal and external auditors and the impact of such coordination on the reliance of external auditor on IAF work, the audit delay and audit fees. In our study, respondents indicate that within their companies, internal audit and external audit and coordinate their activities based on their respective skills and resources. In addition, internal audit leaders indicate that the most commonly used methods of coordination between interanal and external auditors are:

- ✓ Discussions at appropriate intervals throughout the period.
- ✓ The external auditor informs the IAF of significant matters that may affect it.
- ✓ The external auditor is advised of and has access to relevant reports of the IAF.

These results corroborate the findings of previous studies (Singh & Newby, 2010; Glover & al., 2008; Haron & al., 2004; Goodwin, 2004; Krishnamoorthy, 2002; Felix & al., 2001), on the one hand. On the other hand, there are in contradiction with the results of Ebaid (2011) study which found a very low level of interaction between internal and external auditors in Egyptian listed companies. Our results also show that the coordination methods used in the United States (Pizzini & al., 2011; Lin & al., 2011) such as direct assistance where the internal audit staff may be paid to the external auditor and self-employment where the internal audit shall complete or partial audit of places, products or functions under the direction and supervision of the external auditor, are not used in any of the listed Tunisian firms surveyed.

Table V: Interaction between internal audit function and external auditor

	<i>Never</i>	<i>occasionally</i>	<i>Regularly</i>
Meetings were held during the statutory audit period	6.67%	8.88%	84.44%
The external auditor provides important information for the CAE	13.35%	57.77%	28.88%
The external audit requests information from the internal audit function and can consult its reports.		8.88%	91.11%
Loan staff to external auditors	100%		
Perform complete or partial audit of specific functions	100%		
Conduct joint planning sessions	84.45%	15.55%	
Conduct joint risk or control sessions.	86.67%	13.33%	

6. Conclusion

The main objective of this research was to examine the attributes of the internal audit function and the extent of its activities in Tunisian listed companies. Our results show that overall internal audit teams are relatively young and graduates but not certified in internal audit. In addition, in its current state, the internal audit function in listed Tunisian companies beyond traditional surveillance activities to cover part of the risk management. However, significant efforts should be made at improving the independence and the professionalization of internal auditors. This could be undertaken by encouraging certification and particularly by the deployment of adequate budget to expand its intervention area to consulting services and governance process evaluation. Also, management support through the provision of adequate financial and human resources is necessary. In addition, the internal audit function should broaden its intervention beyond traditional insurance and compliance activities to governance process evaluation.

References

- Abbott, L.J., Parker, S. & Peters, G.F. (2012), "Audit fee reductions from internal audit-provided assistance: the incremental impact of internal audit characteristics", *Contemporary Accounting Research*, 29 (1): 94-118.
- Abbott, L.J., Parker, S. & Peters, G.F. (2010), "Serving two masters: the association between audit committee internal audit oversight and internal audit activities", *Accounting Horizons*, 24(1):1-2
- Abdolmohammadi, M.J., Burnaby, P. & Hass, S. 2006. "A review of prior common body of knowledge (CBOK) studies in internal auditing and an overview of the global CBOK 2006. *Managerial Auditing Journal*, 21(8):811-821.
- Ahlawat, S. & Lowe, D. (2004), "An examination of internal auditor objectivity: in-house versus outsourcing", *Auditing: A Journal of Practice & Theory*, 23 (2):147-58.
- Allegrini M., D'Onza G. Melville R., Paape L. & Sarens G., (2006), "The internal audit profession in Europe: a literature review", *Managerial Auditing Journal*, 21 (8):845-853.
- Al-Twaijry, A.A., Brierley, J.A., & Gwilliam, D.R. (2004), "An examination of the relationship between internal and external audit in the Saudi Arabian corporate sector", *Managerial Auditing Journal*, Vol. 19 (7): 929-44.
- Archambeault, D.S., DeZoort, F.T. & Holt, T.P. (2008), "The need for an internal auditor report to external stakeholders to improve governance transparency", *Accounting Horizons*, 22(4) : 1-24.
- Arena, M. & Azzone, G. (2009), "Identifying organizational drivers of internal audit effectiveness", *International Journal of Auditing*, 13(1): 43-57.
- Arena, M., Arnaboldi, M., & Azzone, G. (2006), "Internal audit in Italian organizations: a multiple case study", *Managerial Auditing Journal*, 21 (3): 275-92.
- Bame-Aldred, C.W., Brandon, D.M., Messier, W.F., Rittenberg, L.E., & Stefaniak, C.M. (2013), "A summary of research on external auditor reliance on the internal audit function", *Auditing: A Journal of Practice &*

- Theory*, 32 (1) :251-286.
- Bertin, E. & Godowski, C., (2010), "Interactions entre les acteurs du processus global d'audit & gouvernance de l'entreprise : une étude exploratoire", Congrès de l'AFC, France 2010.
- Boudriga, Z., (2012), *L'audit interne : organisation & pratique*, Collection Azurite, 2012.
- Brandon, D., (2010), "External Auditor Evaluations of Outsourced Internal Auditors", *Auditing : A Journal of Practice & Theory*, 29 (2): 159-173.
- Charreaux, G., (1997), "Vers une théorie du gouvernement des entreprises", in *Le gouvernement d'entreprise : Corporate Governance, théories et faits*, Économica.
- Carcello, J., Hermanson, D. & Raghunandan, K. (2005), "Factors associated with US public companies' investment in internal auditing", *Accounting Horizons*, 19 (2) : 69-84.
- Carey, P., Subramaniam, N. & Ching, K.C.W. (2006), "Internal audit outsourcing in Australia", *Accounting and Finance*, 46(1) :11-30.
- Chapman, C. & Anderson, U. (2002), *Implementing the Professional Practices Framework*, The Institute of Internal Auditors, Altamonte Springs, FL.
- Christopher, J., Sarens, G. & Leung, P. (2009), "A critical analysis of the independence of internal audit function: evidence from Australia", *Accounting, Auditing & Accountability Journal*, 22 (2):200-23.
- Coram, P., Ferguson, C., & Moroney, R., (2008). « Internal audit, alternative internal audit structures and the level of misappropriation of assets fraud », *Accounting and Finance*, 48 (4) : 543-559.
- Cooper, B., Leung, P. & Wong, G. (2006) "The Asia Pacific literature review on internal auditing", *Managerial Auditing Journal*, 21 (8): 822-34
- DeZoort, F., Houston, R. & Reisch, J. (2000), "Incentive compensation for internal auditors", *Internal Auditor*, 57 (3):42-6.
- Ebaid. I., A. (2011), "Internal audit function: an exploratory study from Egyptian listed firms", *International Journal of Law and Management*, 53 (2): 108 - 128
- Felix, W., Gramling, A. & Maletta, M. (2001), "The contribution of internal audit as a determinant of external audit fees and factors influencing this contribution", *Journal of Accounting Research*, 39 (3) : 513-34.
- Glover, S., Prawitt, D. & Wood, D. (2008), "Internal audit sourcing arrangement and the external auditor's reliance decision", *Contemporary Accounting Research*, 25 (1):193-213.
- Gramling, A. & Hermanson, D. (2006), "What roles is your internal audit function playing in corporate governance", *Internal Auditing*, 21 (6): 37-9.
- Gramling, A. & Myers, P. (2006), "Internal auditing's role in ERM", *The Internal Auditor*, 63 (2) : 52-8.
- Gramling, A., Mal&ta, M., Schneider, A. & Church, B. (2004), "The role of internal audit function in corporate governance: a synthesis of the extant internal auditing literature and direction for future research", *Journal of Accounting Literature*, 23 : 94-244.
- Goodwin, J. (2004), "A comparison of internal audit in the private and public sectors", *Managerial Auditing Journal*, 19 (5): 640-50.
- Goodwin, J. & Kent, P. (2006), "The use of internal audit by Australian companies", *Managerial Auditing Journal*, 21 (1/2): 81-101
- Haron, H., Chambers, A., Ramsi, R. & Ismail, I. (2004), "The reliance of external auditors on internal auditors", *Managerial Auditing Journal*, 19 (9):1148-59.
- Hirth, R. (2008), "Better internal audit leads to better controls", *Financial Executive*, 24 (9): 49-51.
- IFACI (2013), *Normes professionnelles de l'audit interne*, IFACI, Paris.
- IFACI (2012), *Les métiers de l'audit et du contrôles internes : résultats de l'enquête 2012 / IFACI*, R. Half.
- IFACI (2001), *commentaires de l'institut de l'audit interne sur le document consultatif du comité de Bâle « relatif à l'audit interne dans les banques et aux relations entre les superviseurs bancaires & les auditeurs internes et externes »*, décembre 2001.
- Institute of Internal Auditors – IIA (2013), *2013 Global Audit Information Network (GAIN) Benchmarking Study*, <https://na.theiia.org/services/gain/Public%20Documents/2013%20GAIN%20Questionnaire.pdf> (accessed, 20 March 2014)
- Institute of Internal Auditors – IIA, (2002), *Data from Global Auditing Information Network (GAIN) survey*. Altamonte Springs, FL: IIA.
- Institute of Internal Auditors – IIA, (1999), *Definition of Internal Auditing*, Altamonte Springs, Florida: the Institute of Internal Auditors.
- James, K. (2003), "The effect of internal audit structure on perceived financial statements fraud prevention", *Accounting Horizons*, 17 (4) : 315-27.
- Jeffrey, C. (2008), "How internal audit adds strategic value", *Financial Executive*, 24(10) :19.
- Johl, S. K., Subramaniam, N. & Cooper, B. (2013), "Internal audit function, board quality and financial reporting quality: evidence from Malaysia", *Managerial Auditing Journal*, 28 (9) : 780 – 814.
- Krishnamoorthy, G. (2002), "A multistage approach to external auditors' evaluation of the internal audit

- functions”, *Auditing: A Journal of Practice & Theory*, 21 (1): 95-121.
- Leung, P., Cooper, B.J. & Robertson, P. (2003), “The Role of Internal Audit in Corporate Governance”, The Institute of Internal Auditors Research Foundation, RMIT University, Melbourne.
- Lin, S., Pizzini, M., Vargus, M.E. & Bardhan, I. (2011), “The role of the internal audit function in the detection and disclosure of material weaknesses”, *The Accounting Review*, 86 (1): 287-323.
- Mihr&, D. & Yismaw, A. (2007), “Internal audit effectiveness: an Ethiopian public sector case study”, *Managerial Auditing Journal*, 22 (5): 470-84.
- Munro, L. & Stewart, J., (2010), “External auditors' reliance on internal audit: the impact of sourcing arrangements and consulting activities”, *Accounting and Finance*, 50 (2): 371-387.
- Nagy, A. & Cenker, W. (2002), “An assessment of the newly defined internal audit function”, *Managerial Auditing Journal*, 17 (3) : 130-7.
- New York Stock Exchange (NYSE), Corporate Accountability and Listing Standards Committee (2002).
- Paape, L., Scheffe, J. & Snoep, P. (2003), “The relationship between the internal audit function and corporate governance in the EU – a survey”, *International Journal of Auditing*, 7 (3): 247-62.
- Peurseem, K.A. (2005), “Conversations with internal auditors: the power of ambiguity”, *Managerial Auditing Journal*, 20 (5): 489-512.
- Pizzini, M., Lin, S., Vargus, M., & Ziegenfuss, D. E. (2011). “The impact of internal audit function quality and contribution on audit delays”. *Working Paper* Southern Methodist University, Cal State University-Fresno, Drexel University, and Old Dominion University.
- Prawitt, D. F., Sharp, N. Y., & Wood, D. A. (2012), “Reconciling archival and experimental research: Does internal audit contribution affect the external audit fee?”. *Behavioral Research in Accounting: Fall*, 23 (2): 187-206
- Prawitt, D.F., Smith, J.L. & Wood, D.A. (2009), “Internal audit quality and earnings management”, *The Accounting Review*, 84 (4):1255-80.
- Rittenberg, L., Moore, W. & Covaleski, M. (1999), “The outsourcing phenomenon”, *Internal Auditor*, 56 (2) : 42-6.
- Sarens, G. & De Beelde, I. (2006), “Internal auditors’ perception about their role in risk management: a comparison between US and Belgian companies”, *Managerial Auditing Journal*, 21 (1): 63-80.
- Schneider, A. (2003), “An examination of whether incentive compensation and stock ownership affect internal auditor objectivity”, *Journal of Managerial Issues*, 15 (4): 486-97.
- Schneider, A. (2008), “The Relationship between Internal Audit and Corporate Management”, *Internal Auditing*, 23(5):12-20.
- Selim, G., Woodward, S. & Allegrini, M. (2009), “Internal auditing and consulting practice: a comparison between UK/Ireland and Italy”, *International Journal of Auditing*, 13 (1), pp. 9-25.
- Seol, I. & Sarkis, J. (2005), “A multi-attribute model for internal auditor selection”, *Managerial Auditing Journal*, 20 (8/9): 876-92.
- Singh, H. & Newby, R. (2010), “Internal audit and audit fees: further evidence”, *Managerial Auditing Journal*, 25 (4): 309-27.
- Skinner, D. & Spira, L.F., (2003), “Trust and control – a symbiotic relationship?”, *Corporate Governance*, 3(4) : 28-35
- Specklé, R.F., Van Elten, H.J. & Kruis, A.M. (2007), “Sourcing of internal auditing: an empirical study”, *Management Accounting Research*, 18:102-124
- Spira, L. & Page, M. (2003), “Risk management: the reinvention of internal control and the changing role of internal audit”, *Accounting, Auditing & Accountability Journal*, 16 (4): 640-61.
- Suwaidan, M.S. & Qasim, A. (2010) "External auditors' reliance on internal auditors and its impact on audit fees: An empirical investigation", *Managerial Auditing Journal*, 25 (6): 509 – 525.
- Zain, M.M., Subramaniam, N. & Stewart, J. (2006), “Internal auditors’ assessment of their contribution to financial statement audits: the relation with audit committee and internal audit function characteristics”, *International Journal of Auditing*, 10 (1): 1-18.

Biographical Details:

Ahmed Atef Oussii is a Ph.D student in accounting at the Higher Institute of Accounting and Business administration, University of Manouba

Neila Boulila Taktak is a Professor in Accounting at The Higher Institute of Management – University of Gabes