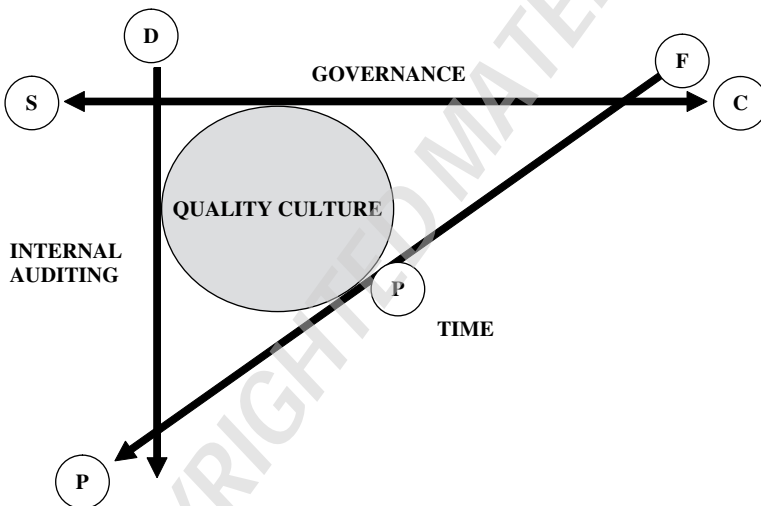# 1
Introduction

'Science does not know its debt to imagination.'

Ralph Waldo Emerson (1803–1882)[1]

Cutting Edge Internal Auditing Model 1992

CUTTING EDGE INTERNAL AUDITING BEFORE 1994

In the early 1980s I experimented with developing a framework for managing internal auditing focused on how an organization is governed and the responsibilities of internal auditors. I based the framework on The IIA Standards at that time. This used a similar model to Slide 1, the one above but showed:

- The *horizontal* line as 'Scope of Work' – Standard 300, 'Scope of Work'.
- The *vertical* line as 'Depth' of audit penetration into the company's operations – Standard 400, 'Performance of Audit Work'.
- The *diagonal* line as 'Time' representing past, present and future.
- The *circle* as 'Management of Internal Audit' – Standards 100, 'Independence'; 200, 'Professional Proficiency'; 500, 'Management of Internal Auditing Department'.

My experiences in quality management in the late 1980s encouraged me to change the framework to demonstrate the importance of quality principles in internal auditing:

- The *horizontal* line became 'Control' without the word 'internal'. This emphasized the importance of control across supply chains (both internal and external to the organization). Represented by **S** and **C**.
- The *vertical* line became 'Image'. This brought in the importance of internal auditing selling its products and services to customers, rather than imposing these with management support.
- The *diagonal* line became 'Change'. This recognized the increasing changes occurring in most organizations as they continued to introduce more advanced information technology, outsource and downsize their operations.
- The *circle* became 'Total Quality Management'. This demonstrated the importance of quality assurance and continuous improvement in all internal audit processes

The intention of the framework as it was further developed into the above graphic was to provide training for internal audit staff in how their function was managed and what they should look for in their work when reviewing management by others.

- The *horizontal* line became governance and its importance for the management of internal auditing. It also demonstrated governance in the organization and across all its supply chains, starting with suppliers **(S)** and ending with customers **(C)** – although this is too simplistic. External and internal suppliers and customers for any organization are complex relationships with many different levels for each: even sometimes being both supplier and customer at the same time. These relations can also vary from stand-off to closer ownership, parental, subsidiary, partner and collaboration links.
- The *vertical* line became the standards with which internal auditors should comply to examine deeply in every engagement – the **D** – and use as a benchmark against their services.
- The *diagonal* line introduced the concept of time – past **(P)** present **(P)** and future **(F)** – in internal auditing and every operation in an organization.
- The *circle* became quality in internal audit work and quality in all an organization's management and processes. How its principles are understood and implemented: how it is measured and its cost. This now more correctly represents how all performance is measured in every operation in an organization.

This interaction of the lines and circle showed how all the elements in the graphic interrelated with the others. None stands out alone; each supports the others. The two outward-pointing arrows at the horizontal level demonstrated the importance of always thinking laterally about every operation. The vertical line pointing down demonstrated the importance of depth and detail in the performance of all work, through good planning and competence. The two outward-pointing arrows on the diagonal demonstrated the need to examine the past, present and future in each engagement.

This book continues to develop this cutting edge internal auditing model to represent the interactions between governance in an organization today and tomorrow, the growing professionalism of internal auditing services, changes that are continuous and the never-ending

road to better quality: interactions that exist in the operations in every organization. These are interactions that all internal auditors have to imagine in every engagement they start, from the planning stages, setting of objectives, risk assessment, review of control and governance to communication of findings: interactions that require creative thinking and innovation. Creative thinking and innovation are key to the success of internal auditing. They are key to the success of every organization. They require imagination.

Peter Drucker (1955)[2] described the setting of innovative objectives in organizations in two parts: '. . . *one looking a short time ahead and projecting fairly concrete developments which, in effect, only carry out innovations already made; another looking a long time ahead and aiming at what might be.'* Of his five innovation goals for an organization, the fifth is:

> Innovations and improvements in all major areas of activity – in accounting or design, office management or labour relations – so as to keep up with the advances in knowledge and skills.

No mention of internal auditing but the message applies: '. . . *to keep up with the advances in knowledge and skills'* or, better still, to manage that knowledge well and be ahead of the advances!

Later, Drucker (1967)[3] wrote:

> In all matters of true uncertainty such as the executive deals with – whether his sphere is political, economic, social or military – one needs creative solutions which create a new situation. And this means that one needs imagination – a new and different way of perceiving and understanding. Imagination of the first order is, I admit, not in abundant supply. But neither is it as scarce as is commonly believed. Imagination needs to be challenged and stimulated, however, or else it remains latent and unused. Disagreement, especially if forced to be reasoned, thought through, documented, is the most effective stimulus we know.

Challenges from disagreement, whether within internal auditing or from its many different suppliers and customers, are still the best stimulus for imagination and cutting edge practices.

Professor Andrew Chambers (1981)[4] discussed tomorrow's internal auditing with some foresight as to what was to happen in the future:

> There is also now emerging some understanding that exclusive dedication to operational efficiency means that the internal auditor is in danger, amongst other things, of overlooking certain other elements, which may have a much greater bearing upon the long-term health of the organization. These elements are corporate attitudes – for example, attitude to risk, attitude to innovation, attitude to conserving resources, attitude to work, attitude to staff development and so on. While *attitude audits* are not currently generally regarded as legitimate internal audit interest, they may become so in the future.

For corporate attitudes read corporate culture. For corporate culture also read internal auditing culture.

Little is written about the cutting edge of innovation and internal auditing prior to 1994. Then the terms used most to describe best internal auditing were, and still are, modern, world class, first class, leading edge and best in class. Cutting edge and innovation are now relatively new terms used to promote and market internal auditing services and its products and services in risk management, control and governance processes.

Article:
Professional Internal Auditors Are Talented People[5] (1994)

The education and training of professional internal auditors starts at the recruitment interview and con- experience of inter- career development outside the internal Professional internal variety of roles in as they provide professional ser-

> *'Professional internal auditors are experts in governance and skilled in the strategic, tactical and operational aspects of risk assessment and audit planning.'*

tinues through their nal auditing into paths within and audit department. auditors develop a their organizations and develop their vices. They move from policeman to consultant to teacher in every audit and between professional and technical positions, as they promote their services and careers. Any list of their collective knowledge and skills includes, but is not restricted to, accounting, finance statistics, electronic data processing, engineering, taxation and law.

Professional internal auditors are experts in governance and skilled in the strategic, tactical and operational aspects of risk assessment and audit planning. They are able to adapt their service to the effects of change on structures and procedures and facilitate change to improve control in the future.

They understand how quality is designed and customers are delighted with the products and services they buy. This understanding is built into every audit.

They are good communicators, sensitive to the needs of their customers. They have the ability to develop satisfactory relationships with those they serve. They are committed professionals, dedicated to the marketing of their service.

They continue their education through training programmes linked to their own, their service and their organization's objectives. They participate in their professional institute's activities.

They are successful. They are real!

Research into internal auditing practices always shows that many professional internal auditors are very successful in their careers. They are seen as members of their management teams, receiving rewards and reinforcement equal to, if not better than, many other service functions. They have a high profile in their organizations and their advice is respected. They are talented people.

CUTTING EDGE INTERNAL AUDITING IS ALL ABOUT IMAGINATION

Imagination is the key to excellent internal auditing by talented internal auditors. The aim of this book is to demonstrate this importance, whatever the role acted by an internal auditor, be it assurance, consulting, teaching, facilitation, or other. Internal auditors have many

explorations in the pursuit of an engagement's objectives – explorations where there are organization maps to understand; trails to follow, often without structure and signposts; bridges to cross; gaps of information to confuse the pursuit; supply chains stretching across the globe; walls that often block communications; and, new, sometimes unproven, technology. Perhaps the comparisons are a little extreme but they fit many of the engagements in my career as an internal auditor.

Auditing engagements are adventures at all times, not only with obstacles, but also relationships developing along the trails they follow: relationships that can be friendly and participative;[6] relationships that can create dislike and distrust; relationships that can even be aggressive. Imagination plays an important part in every engagement. It is also essential in developing overall audit strategy, policies, processes, style[7] and creating successful end-results for each engagement.

Jean-Pierre Garitte,[8] Chairman of The IIA in 1998, caught the imagination of participative relationships in internal auditing, promoting a theme of *'building bridges'*:

> We internal auditors traverse our organizations; but, as we migrate from one area to another, and another, we haven't always thought about how helpful it might be to promote and enhance connectedness. We haven't always thought of ourselves as bridge builders, or even as partners with the potential to link multifarious elements.

Exploring every engagement with the intention of building bridges can enhance the image of internal auditing, and be cutting edge. Garitte ends his paper with:

> When we work with operating management and others in an ambiance of support and helpfulness, we erect scaffolds for connections, and we tear down walls that divide us.

Imagination is not mentioned in The IIA definition of internal auditing[9] or its supporting standards and guidance, yet its effect can be seen in the present status and promotion of professional internal auditing. Consider whether the definition of internal auditing would have been improved if 'imaginative' had been included:

> Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined *[and imaginative]* approach to evaluate and improve the effectiveness of risk management, control and governance processes.

At its heart, cutting edge in science is always about innovation and pioneering change. Often not just 'nudges' but 'paradigm shifts': shifts to improve directions, operations, products, services, achievements and satisfaction; shifts to improve the way life is lived and work is performed. Cutting edge internal auditing is all of these things. It is about creating practices that meet the needs of its customers, but most of all it is about the imagination to create and innovate. Imagination to know which structures, operations and methods need to be created: and innovation to action the best ways to do this.

What is cutting edge today may well be traditional tomorrow, or it may remain cutting edge for some time. There is no better evidence for this than in tools and technology. The hammer was cutting edge at one time, so was the desktop computer. The hammer is now the traditional method of applying instant pressure to a nail, possessed and used by many – though some may now use more cutting edge technology based on air pressure, or even alternatives to nails.

The desktop computer was cutting edge when introduced in businesses in the 1960s and for some it is still cutting edge, but for many it is now traditional, a piece of hardware in all types of business and many homes. Yet, cutting edge devices continuously change

its software and accessories, and this will continue. Today, traditional desktop hardware is now being replaced by cutting edge technology, in the form of wireless laptops and more recently in the form of wireless handheld devices. More cutting edge technology changes will happen, and at a faster pace.

What is true of tools and technology applies equally to strategies, policies, processes, techniques and even attitudes. Resource availability, knowledge management, competition and customer needs all drive change. Leading edge organizations recognize this and adapt their products and services accordingly. What changes leading edge into cutting edge is competition, invention and an understanding of customer needs in the immediate future and horizon.

Letter:
We Should Have A Vision To Be Innovators[10] (1998)

After 50 years as a profession we should now have a vision to be innovators! With the formation of the Institute of Internal Audi-tors (The IIA) in North America in 1941, internal auditors in the 1940s promoted the development of professional internal auditing. The IIA intro-duced in 1942 a worldwide image for internal auditing . . . as an 'added value' professional service, using the challenging statement:

> *'Creativity, innovation and experimentation are now key to our professional success. They must be the vision of all internal auditing functions.'*

> Today's happenings pose new and perhaps perplexing problems to internal auditors. The requests and regulations of the several branches and agencies of Government demand a complete knowledge by internal auditors of their effect on the normal units of the companies they represent. The scope of internal audit requirements has increased tremendously

Shortly after this, chapters of The IIA were established across North America and worldwide, including the UK. In 1975, growing membership in the UK resulted in a merger of the five chapters, into the first IIA affiliated national institute. I was proud and honoured to be elected its first president. The IIA–UK is now one of the foremost leaders in the development of internal auditing at national and international levels. No small achievement for a young professional body, its members and staff.

The vision we set ourselves in 1975 was *'. . . to be a profession for the future.'* Since then, many IIA developments have contributed to our claim to international status: international standards and a code of ethics, professional examinations based on an international common body of knowledge, global research into control and auditing, international quality assurance reviews, all have played their parts in our growth. However, our vision for tomorrow must be even higher than just being a profession. We also need to be seen as innovators in the world of regulation, control and auditing.

Creativity, innovation and experimentation are now key to our professional success. They must be the vision of all internal auditing functions. This means improving old and developing new products and services for delighting our customers, with a focus on their objectives. This means being at the leading edge in all the markets in which we sell our internal auditing services. This means beating our competitors and knowing who these are. This means having the imagination, and foresight of what our organizations will require from us, not just in 2000, but also beyond.

In this 50th year celebration of our national institute's past and present teamwork, all IIA–UK members should continue to set their sights on being inventors of an improved and new internal auditing, to delight all their customers . . . and increase its status as a profession.

LEADING EDGE INTERNAL AUDITING IN 1998

In 1998, for my book[11] with Professor Andrew Chambers on leading edge internal auditing practices at that time, I included a spectrum of traditional, new and leading edge internal auditing resources and practices, developed by research in 1996 (see Figure 1.1).

In the same book I wrote:

> The recent benchmarking service provided by The IIA has identified in its questionnaire and results the following emerging best and successful internal auditing practices, many of which can be seen in Figure 1.1 as new and leading edge activities:

> - develop a partnering role with audit clients;
> - participate in corporate task forces;
> - align corporate goals, department plans and performance evaluations;
> - educate management on their internal control responsibilities;
> - carry out customer satisfaction surveys;
> - utilize self-directed, integrated work teams;
> - provide training to audit committee members;
> - utilize integrated auditing;
> - external quality assurance reviews of internal auditing practices;
> - emphasize TQM principles and apply aggressively;
> - utilize computer assisted techniques;
> - include audits of environment, health and safety;
> - develop a formal risk assessment system involving management;
> - empower staff to experiment with a variety of approaches in developing innovative solutions to problems;
> - and, provide internal consulting services, such as focus on problem solving rather than problem finding;

> All these trends are encouraging internal audit experiment and development of leading edge practices.

CHARACTERISTICS	TRADITIONAL	NEW	LEADING EDGE
Why internal audit?:	Management Owner	Regulator Governing body	Mandatory Public
Provided by:	In-house Parent body	Audit firm Agency Consortium	
Reporting lines:	Finance External audit	Audit committee Chief executive	Chairman Stakeholders
Objectivity/independence:	Charter	Partnerships External	Regulated
Professionalism:	Accounting	Internal audit Computing	Management Specialists
Scope of work:	Accounting Financial Compliance	Risk assessment Business objectives Consultancy	Risk management Quality management Environmental
Management:	Stock check Computers Systems	Conduct/ethics	Whistleblowing
Skills:	Written Oral Behavioural	Computing Teamwork	Expert systems Virtual reality
Performance:	Critic Detector Protector Checker	Assurer Comforter Assessor Assistant Teacher Partner	Change agent Innovator Leader Value adder
Management structure:	Hierarchical	Empowered team	Visionary
Auditor coordination:	External	Environmental	Integrated Quality Regulator
Other audits:	Operational Management VFM Systems Computer	Self-assessment	Quality Environmental Health and safety Due diligence Joint ventures

Figure 1.1   Model Spectrum For Internal Audit In The United Kingdom 1998
Source: J. Ridley and Dr Kenneth D'Silva, cited in *Leading Edge Internal Auditing* (1998).

There is ample evidence of this experiment and development over the past 10 years in research by The IIA; its statements and standards on professionalism; the syllabi of its professional internal auditing examinations; its internal auditing seminars, training courses and conferences; research by many others; text books on internal auditing; and, many academic courses internationally at both graduate, postgraduate and doctorate levels In this book you will find references to this experiment and development in the articles I have written since 1998. These include many leading and cutting edge practices and more, including discussion on how they have evolved and what has influenced this. Many are still influencing the cutting edge resources and practices of today and will continue to do so tomorrow.

TODAY'S CUTTING EDGE INTERNAL AUDITING VISION

Since its foundation, The IIA and its members have been at the forefront of introducing cutting edge into the services provided by internal auditors. The IIA *Certificate of Incorporation* (1941)[12] states as the purposes of the institute:

> To cultivate, promote and disseminate knowledge and information concerning internal auditing and subjects related thereto, to establish and maintain high standards of integrity, honour and character among internal auditors; to furnish information regarding internal auditing and the practice and methods thereof to its members, and to other persons interested, and to the general public; to cause the publication of articles, relating to internal auditing and practices and methods thereof; to establish and maintain a library and reading rooms, meeting rooms and social rooms for the use of its members; and to do any and all things which shall be lawful and appropriate in furtherance of any of the purposes hereinbefore expressed.

Perhaps it is traditional today, but at the time this was cutting edge thinking, certainly for internal auditing. Compare this statement of purposes with The IIA Vision and Mission[13] in 2007:

Vision

The IIA will be the global voice of the internal audit profession: advocating its value, promoting best practice, and providing exceptional service to its members.

Mission

The mission of The Institute of Internal Auditors is to provide dynamic leadership for the global profession of internal auditing. Activities in support of this mission will include, but will not be limited to:

- advocating and promoting the value that internal audit professionals add to their organization;
- providing comprehensive professional educational and development opportunities; standards and other professional practice guidance; and certification programmes;
- researching, disseminating, and promoting to practitioners and stakeholders knowledge concerning internal auditing and its appropriate role in control, risk management and governance;
- educating practitioners and other relevant audiences on best practices in internal auditing; and
- bringing together internal auditors from all countries to share information and experiences.

All of the above can be seen in The IIA global operations today. They are also seen in many internal auditing resources and practices worldwide. Each of the missions has its own traditional, leading edge and cutting edge activities, which will be discussed in more detail in the following chapters. So, too, will the internal auditing principles on which they are based.

The vision statement is key to the mission of the Institute: it is also a key to cutting edge practices. Richard Whitely (1991)[14] inspired me at the time with his writings on vision statements with the following quotes:

> A good vision leads to competitive advantage.

> One way to define vision is . . . a vivid picture of an ambitious, desirable state that is connected to the customer and better in some important way than the current state.

How does this vision represent the interests of our customers and values that are important to us?

A vision has two vital functions, and they're more important today than ever before. One is to serve as a source of inspiration. The other is to guide decision making, aligning all the organization's parts so that they work together

If your vision is not an impetus to excellence, then it has failed.

When a company clearly declares what it stands for and its people share this vision, a powerful network is created – people seeking related goals.

Constantly communicate your vision for your organization to those who work with you and for you. Don't let a day go by without talking about it.

In 1992 Dr Colin Coulson-Thomas[15] inspired me also on vision statements when he wrote on leadership and transformation, drawing on a series of 1991 surveys of large organizations, highlighting the need for clear vision and sustained top management commitment for change:

The three 1991 surveys we have examined suggest there is some consensus concerning what is important, and what needs to be done to bridge the gap between expectation and achievement that is found in many companies:

- A compelling vision is essential for both differentiation and transformation. Clear vision and strategy, and top management commitment are of crucial importance in the management of change. If either is lacking, a change programme is likely to be built upon foundations of sand.
- The vision and commitment need to be sustained. This requires an effective board composed of competent directors.
- The vision must be shared, the purpose of change communicated, and employee involvement and commitment secured.
- People need to be equipped to manage change. Changes of attitude, approach and perspective are required.
- The ability to communicate is an essential management quality. Successful communication and sharing of a vision requires integrity and a relationship of trust.

As true today as in 1992.

The IIA has always recognized innovation in its promotion of professional internal auditing. In their research Glen Gray and Maryann Gray[16] (1996) prefaced their results with:

The internal auditing environment is facing many challenges, such as spreading technology, new staffing needs, flattening organizational structures, expanding scope of services, increasing competition, and globalization. Many of the 54,000+ IIA members are developing and implementing innovations to meet these challenges. Some of these innovations include major changes to the structure of internal auditing departments or the scope of services provided to their enterprises. Other innovations focus on one specific aspect of the traditional auditing processes.

Their synthesis of developed case studies showed the following common motivations and goals for innovation and categories in internal audit activities:

Motivations

1. Progress within the field of professional internal auditing.
2. Increasing competition leading to pressures to reduce costs and increase efficiency.

3. New challenges, such as increasing internal control risks due to staff reductions and restructuring.
4. Opportunities to increase efficiency and quality as a result of technological advances.
5. Changes in corporate management practices and philosophies, such as Total Quality Management, re-engineering, continuous quality improvement, or related approaches

Goals

1. Improvement of the quality of internal auditing services.
2. Improve efficiency.
3. Expansion of services to increase the value added of internal auditing.
4. Boost staff skills, performance and morale.

Categories

1. Changes in the way that internal auditors interact with the rest of their enterprises.
2. Internal restructuring and changes in the organization and management of internal auditing.
3. Creation of new audit services and methods.
4. Changes in the use of technology.

These results have stood the test of time well. They will be addressed in the summary of each chapter to consider whether cutting edge internal auditing has, or is today, creating new motivations, goals or categories. Look for your own additional or changed motivations, goals and categories as you read each chapter.

In *Leading Edge Internal Auditing* (1998: p. 115) I wrote about vision statements as follows:

Create a Vision of Future Internal Auditing

Imagination needs direction – not in a controlled sense but in a creative sense. It is the art of forming mental images and constructively channelling these into visions for the future. It is not easy to find examples of internal auditing vision statements. Not all internal auditors are committed to the value of vision statements. Yet, in their organizations they are often prominent as management statements or team statements, and always associated with their organization's products and services. So why not for internal audit? Vision statements now generally aim to promote '. . . *a vivid picture of an ambitious, desirable state that is connected to the customer and better in some important way than the current state'*. Vision statements need to be exciting, even emotional. They need a total commitment to succeed. They need to be measured and updated as time improves the vision. They need to be short and simple.

Bill Bishop, Past President of The IIA, summed up in June 2003 the Institute's contribution to cutting edge in the following paragraph in a foreword[17] to an article 'Internal Auditing: *Where are we Now and Where are we Heading?*' by Sridhar Ramamoorie, then chairman of The IIA Academic Relations Committee: part of a publication recognizing the 10th anniversary of the postgraduate programme in internal/operational auditing at Erasmus Universiteit, Rotterdam:

Auditors today must understand the relevant risks, challenges, and opportunities, and The IIA will continue to stand at the forefront of providing research, guidance, and education to ensure internal auditors stay on the cutting edge of the profession.

In his article Sridhar Ramamoorie ends with an appropriate message on the importance of research leading to innovation in internal auditing practices:

> In conclusion, the 21st century presents much promise and unprecedented growth opportunities for the internal auditing profession. However, developments in practice must be carefully studied so that a body of knowledge is systematically built up, and transmitted to future generations of internal auditing professionals. The extant of knowledge should not only be critiqued, and constantly refined to reflect the current state of the art, but should also encourage and stimulate, through research, leading edge thinking that so often produces innovations in practice.

Such research into leading edge thinking and innovation should not just be by academics, but by every internal audit activity. There is evidence in this book that this is happening today in many internal auditing practices across the globe. A 2005 study[18] on innovative practices in the US explored whether there is a pattern today underlying innovation in organizations of diverse sizes and industries. It formed the conclusion:

> This study continues to advance the notion that there are in fact patterns for success. Although the companies in this study are from diverse industries – such as consumer packaged goods, medical services, and industrial equipment – the principles behind their innovation approaches are surprisingly consistent. They all look beyond the walls of their companies to find good ideas. They all follow a structured approach to innovation. They all back their words with action, making innovation a central part of everything the firm does. There are definite nuances and differences, but the commonality of the patterns is an encouraging sign.

I hope this book will challenge your pattern of internal auditing success, now and in the future. That pattern must include the values of professionalism and *'. . . a structured approach to innovation'.* backed with action, if internal auditing is to be seen as a valued profession by all its customers and stakeholders. The number of stakeholders are increasing as organizations become more regulated, not just nationally but also globally.

Article:
Celebrating Professionalism[19] (2004)

Internal auditing is moving into an era of increased regulation, and this indeed is cause for celebration. Higher standards – both self-imposed and mandated by external regulators – are helping to elevate the status of our profespractitioners to gain a more influential role in their organizations. One of the most recent examples of regulatory activity comes from the New York Stock Exchange, which now requires all of its listed companies to have an internal audit function. But this requirement and others like it fall short in one key area – specifying a standard

> *'. . . professionalism – like quality – hinges on adherence to a set of core principles and values.'*

of professionalism. Despite what we celebrate today, internal auditors still need to promote and establish the regulation of internal audit professionalism.

How should the internal audit profession be regulated? Achieving professionalism is like achieving quality. The process requires management leadership, standards for the manner in which services are provided, measurement of achievement, input from customers, and a total commitment to excellence by all involved. But above all, professionalism – like quality – hinges on adherence to a set of core principles and values. All other aspects of professionalism stem from this commitment.

Specifically, the set of principles to which a profession adheres is typically defined in its code of ethics. For internal auditors, The Institute of Internal Auditors (IIA) has established its own code that covers principles and rules governing integrity, objectivity, confidentiality, and competency. That code should be understood by all internal auditors and explained to those who rely on the profession's services. Questions all internal auditors should ask themselves are – 'Does my professional conduct meet the requirements of The IIA code?' and 'Does The IIA code match or improve the ethical cultures required by my organization, regulators, governments and other professional bodies?' Knowing the answers to these questions is key to measuring their own professionalism, and the conduct they should expect to see in others. But compliance with a set of principles at a given point in time is only part of the picture. Professionalism also requires commitment to continuous improvement.

Quality assurance and continuous improvement are fundamental to achieving high levels of quality in all products and services, and programmes aimed at achieving this result typically require both internal and external assessments. The same applies to internal audit professionalism – implementation of principles and standards needs to be monitored on an ongoing basis to ensure adequate performance. Yet how many internal audit activities have such a programme up and running? How many report the results of such programmes to their management and board of directors? Research shows that many fall short in this area.

Professionalism is essential to the achievement of high standards in internal auditing. Like quality, it is not a destination but a road that should be followed – one that calls for a customer-focused vision and requires passion and commitment to continuous improvement. Although hazards may exist along the way, these can be overcome with integrity, objectivity, confidentiality, and competency. Internal auditors should certainly take the opportunity to celebrate advances made by the profession thus far, but we should not let this progress serve as an excuse to become complacent.

INTRODUCTION TO THE FOLLOWING CHAPTERS

Each chapter, except the last, is structured as follows:

Introduction to a Cutting Edge Theme for Internal Auditing

This will discuss events/issues related to the theme prior to and around the times of publication/preparation of my articles/research reproduced.

Internal Auditing Today and in the Future

This will discuss relevant events/issues related to the theme since the publication/development of the article/research. It will also attempt to predict how the theme will impact cutting edge internal auditing in the immediate future and beyond the horizon.

Chapter Summary

This will summarize the chapter discussion and consider how it impacts the Gray and Gray (1996) innovation motivations, goals and categories.

Internal Auditing Principia 1998[20] and 2008

This will list internal auditing principia related to the theme, developed and published by me in 1998. It will revise these principia for 2008 to reflect the importance of the cutting edge discussion in the chapter.

A Vision for the Theme

A suggested vision statement from the chapter discussion that will *'. . . promote a vivid picture of an ambitious, desirable state that is connected to the customer'*.

Synopses of Cutting Edge Case Studies Relevant to the Theme

Cases studies have been selected to demonstrate situations and issues discussed in the chapter. They can sometimes go beyond, into other chapters. A few of the case studies are my own, but most have been developed and written by other contributors: their contribution is acknowledged at the beginning of the book and end of their case. Each case study is introduced with a synopsis in the chapter, followed by questions to be considered by the reader. The synopses and questions are my summaries of each case and questions I ask myself after reading the case. **The full case studies are included on the CD ROM inside the back cover**. Readers should read the full case study before considering the questions. I am sure there will be other questions that readers will ask, based on their internal auditing experience and situation, and I encouraged readers to do this. Preferably, the cases should be discussed in groups. Group discussion creates more learning opportunities for the development of cutting edge internal auditing resources and practices. Not all in a group will agree with the issues and challenges in a case, or the cutting edge resources and practices internal auditing now needs to continuously improve. This is good. Remember Peter Drucker's writings on imagination quoted at the beginning of this chapter: *'Disagreement, especially if forced to be reasoned, thought through, documented, is the most effective stimulus we know.'* The cases included in my book are not the end of a learning period but just part of a continuing process. There are now, and will be in the future, many more case studies for internal auditing to learn from and develop best practices. Readers are encouraged to create their own library of case studies and considerations, learn from them and pioneer new resources and practices. That is what cutting edge internal auditing is all about.

Self-Assessment Questions

Readers will be asked questions to answer on their own, or preferably as members of a group, so that they can measure their understanding of what has been discussed. Answers to

the questions can be found in the chapter, or in the reader's organization, or are shown in Appendix C.

Notes and References

Annotations in each reproduced article are shown as footnotes. Superscript figures in the text are explained at the end of each chapter in a 'Notes and References', section that provides bibliographic detail and supports statements made in the discussion. A recommended bibliography of cutting edge knowledge that should be on all internal audit activity bookshelves is shown at the end of the book. There are many references in the book to *The IIA International Standards*[21] and supporting Practice Advisories, but little of the detail provided. This is intentional because it will change over time. It will be the reader's challenge to keep the references up to date. Many other references to and sources for best practices are discussed in each chapter. There will be others not mentioned, but recognized and used by the imaginative internal auditor. Time and place change best practices. That is why benchmarking for these is a continuous process worldwide and not just a one-off exercise. Nevertheless those discussed in the book should generate sufficient interest to enable the reader to explore for others. That is the excitement of benchmarking.

The future will see many cutting edge activities in internal auditing: some will develop from documented traditional and leading edge activities today. Others will be created from new knowledge and experiences. Such change is what cutting edge is all about. The address for all references into The Institute of Internal Auditors Inc. (The IIA) and The IIA Research Foundation publications is 247 Maitland Avenue, Altamonte Springs, Florida 32701-4201, USA (www.theiia.org): the address for all Institute of Internal Auditors – United Kingdom & Ireland (IIA–UK & Ireland) publications is 13 Abberville Mews, 88 Clapham Park Road, London SW4 7BX, England (www.iia.org.uk). Because of the many references into publications by these two organizations, these addresses are not repeated in annotations.

FRAMEWORK OF THE CHAPTERS IN CUTTING EDGE

There are many cutting edge links between the chapters. As a framework the titles provide a direction for the development of cutting edge resources and practices in all internal auditing activities worldwide. Yet each chapter is a lecture and seminar on its own. It can be used as part of an education programme or a training course, either in-house or external. For these purposes training slides used at the beginning of some of the chapters and in the middle of the last chapter can also be downloaded from the CD ROM inside the back cover.

My articles and material reproduced in each chapter mainly relate to the chapter's theme, though other important issues may be mentioned. This is inevitable because none of the themes discussed separately applies in isolation from the others, either in theory or practice. Inevitably, because of the reproduced articles and other research, there is some repetition at times of important statements in chapters. I hope the reader will recognize this repetition as emphasizing the importance of the messages these statements contain. Risk management, control and governance are integrated processes influencing change and performance at all levels – strategic, objective setting, implementation of policies, procedures, systems and in all day-to-day operations, reporting and compliance – and, most importantly, across all of an organization's supply chains and in collaborations with others. At least that is what should be, but it is not always so!

There is exploration and adventure in every chapter for the imaginative internal auditor, committed to being at the cutting edge of internal auditing today and tomorrow. Best practice internal auditing owes a significant debt to that imagination and all those who have developed, and continue to develop professionalism in internal auditing.

NOTES AND REFERENCES

1. Cited in *Wisdom of the Ages* (1936: p. 188), The St Catherine Press Ltd, London, England.
2. *The Practice of Management* (1955) (2006 reissue: p. 66), Peter F. Drucker, Butterworth–Heinemann, Oxford, England.
3. *The Effective Executive* (1967) (2006 reissue: p. 127), Peter F. Drucker, Butterworth–Heinemann, Oxford, England.
4. *Internal Auditing* (1981), Andrew D. Chambers, Pitman Books Limited, London, England.
5. Published in *Internal Auditing* (June 1994: p. 10), IIA–UK & Ireland.
6. *Behavioural Patterns in Internal Audit Relationships* (1973), Mints, Dr Frederick E., The IIA. Dr Mints found at the time that *'many auditees still harbour feelings of dislike and distrust towards auditors'*. His research supported the participative approach in audit engagements *'. . . - the teamwork approach, the problem solving partnership may well be the light at the end of a dreary tunnel.'*
7. The 5th edition of Sawyer's *Internal Auditing* (2003), The IIA recognizes in dealing with people that *'imaginative internal audit work, in and of itself, is not enough to ensure improvement in operations. Clients must want to implement audit recommendations. So audit style may be as important as technical competence.'*
8. Jean-Pierre Garritte, 'Building bridges', *Internal Auditor* (August 1998: pp. 26–31), The IIA.
9. This is the current definition of internal auditing published by The IIA in 1999. The previous definition was: *'Internal auditing is 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 concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.*
10. Published in *Internal Auditing* (March 1998: p. 12), on the celebration of The IIA – UK 50th year, IIA – UK & Ireland.
11. *Leading Edge Internal Auditing* (1998: p. 10), Jeffrey Ridley and Andrew Chambers, ICSA Publishing Limited, London, England [first published in paperback 2007].
12. Cited in *Foundations for Unlimited Horizons – The Institute of Internal Auditors 1941–1976* (1977: Appendix C), Victor Z. Brink (1977), The IIA.
13. www.theiia.org/index.cfm?doc_id=267 visited 4 August 2006.
14. *The Customer-Driven Company* (1991: pp. 21, 26–28, 32, 37), Richard C. Whitely, Business Books Limited, London, England.
15. *Leadership and Corporate Transformation*, Dr Colin J. Coulson-Thomas, *Administrator*, April 1992, Institute of Chartered Secretaries and Administrators, London, England. Professor Coulson-Thomas still researches and writes on management practices. Details of his current *Winning Companies: Winning People* research programme were recently discussed in the ICAEW *Accountancy* magazine (March 2007: pp. 56–57).
16. *Enhancing Internal Auditing Through Innovative Practices* (1996), Glen L. Gray and Maryann Jacobi Gray, The IIA Research Foundation.
17. *Internal/Operational Auditing; bjdragen aan governance & control,* Chapter 1. *Foreword* by William G. Bishop III to *'Internal Auditing: Where are we Now and Where are we Heading?'*,

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18. *Innovation: Putting Ideas into Action* (2005: p. 7), American Productivity & Quality Control Association (APQC), Houston, Texas, USA. www.apqc.org visited 16 October 2006.

19. Published in *Internal Auditor* (April 2004), The IIA.

20. *Leading Edge Internal Auditing* (1998: Appendix H, p. 385, 'Principia for Leading Edge Internal Auditing'), Jeffrey Ridley and Andrew D. Chambers, ICSA Publishing, London.

21. Recently described in detail in *Implementing The Professional Practices Framework* (2006), Urton Anderson and Andrew J. Dahie, The IIA Research Foundation.