The Process of Internal Audit’s Involvement in Enterprise Risk Management: The Influence on Internal Audit’s Objectivity and Independence

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ABSTRACT

In 2004, the Institute of Internal Auditors (IIA) issued a paper that defined internal auditors’ role in Enterprise Risk Management (ERM) as a role that relates to measuring and monitoring performance. The present study examines how high internal audit involvement in ERM-related activities and a strong relationship between internal auditors and senior management influence internal auditors’ objectivity and independence. The present study replicates the experimental design used by de Zwaan, Stewart and Subramaniam (2011) with the manipulation of the variables of (i) internal audit’s involvement in ERM and (ii) the strength of the relationship between internal audit and senior management. Similarly to de Zwaan et al. (2011), objectivity and independence are measured by examining internal audit’s willingness to report a breakdown in risk procedures to the audit committee. The results show that internal auditors are somewhat influenced by a high involvement in ERM-related activities when reporting a breakdown in risk procedures and that internal auditors consider the guidelines issued by the IIA important to follow. Further, the results do not indicate that a strong relationship between internal auditors and senior management influences internal audit’s willingness to report a breakdown in risk procedures.

**Keywords**: Internal audit, Enterprise Risk Management, independence, objectivity, audit committee, senior management
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I INTRODUCTION

1.1 Background

Internal auditing is recognized as a control mechanism that assists management and the board of directors to reach corporate objectives (Mihret, 2014). Put in different words, internal auditing itself acts as a special kind of control function over other controls within an organization. Further, internal auditing takes an important part in the process of accountability as its main objective is to ensure and promote the effective performance of accountability that management strives to achieve (Chun, 1997). Demands from various stakeholders of organizations that the board of directors and senior management (CEO and/or CFO) should apply accepted governance principles, adhere to sound risk management and demonstrate control of their organizations have resulted in a big responsibility for the internal auditors (Sarens & De Beelde, 2006a). Goodwin and Yeo (2001) mention that the present global emphasis on the request for sound corporate governance has resulted in an increased interest in internal auditing. Arguments have been made for that an effective internal audit department is a vital part of corporate governance and has a crucial role in assisting management and the board of directors in reaching their goals (Ridley, 2001). In order to reach this sound corporate governance, objectivity and independence is required among internal auditors, where objectivity is explained by the Institute of Internal Auditors (IIA) (2012) as an unbiased mental attitude where no quality compromises are made while independence is the freedom of internal auditors to carry out their respective responsibilities in an unbiased manner IIA (2012).

Internal auditing has over the years undergone dramatic changes that have led up to today’s extended scope that allows for internal auditing to make greater contributions to the organization it serves (Fadzil, Haron & Jantan, 2005). A Malaysian study completed by the Malaysian Institute of Corporate Governance, the Institute of Internal Auditors Malaysia and EY revealed that internal auditors are among the best placed within an organization to understand and give feedback on the organization’s business and that their help makes an organization run its operations more efficiently and effectively which increases the chances of higher shareholder value (Fadzil et al., 2005). Hass, Abdolmohammadi and Burnaby (2006) state that the scope of internal audit activities has clearly grown and now includes a wider spectrum of services offered by internal auditors. They mention that the IIA in 2004 responded to this changing organizational environment by updating
the professional practices framework in order to include standards that would help internal auditors to reach high quality in all different activities they now engage in. Furthermore, Sarens and De Beelde (2006a) similarly argue that the role of internal auditing has changed during the last decades in order to adapt to a new economic environment.

Internal auditors now often fall under the description of being both policemen because of their assurance activities and business partners because of their consulting activities (Fadzil et al., 2005). The assurance activities relate to issues regarding internal control and compliance, whereas the consulting activities concern activities beyond traditional assurance work that are designed to assist management achieve its objectives (Chapman, 2001). According to Mutchler (2003), consulting activities could be considered as so-called non-audit services and the demand for the variety and amount of these services offered by internal auditors has increased. Dlottenhofer (2001) states that internal auditing has developed into a substantial element of management in both public and private sectors. Stewart and Subramaniam (2010) mention that an essential part of the motivation for the growth in internal audit research is related to the developing and increasing role of internal audit as a key corporate governance mechanism as well as an internal consultancy service. Furthermore, internal auditors nowadays find themselves in a unique situation as they provide both assurance as well as consultancy services (Stewart and Subramaniam, 2010).

1.2 Problematization

The developed and more important role of the internal audit function has led to that internal auditors have started to apply both assurance and consulting activities within Enterprise Risk Management (ERM) during the last decade (Sarens & De Beelde, 2006a). ERM can generally be described as the process of planning and controlling the organization’s activities in order to minimize risks connected to the organization (COSO 2004). Since internal audit’s natural focus is on risks and controls, it has played a vital role in overseeing ERM-related activities within the organisation. However, several authors expressed concerns over that the increased involvement of internal audit in ERM-related activities posed a threat towards internal audit objectivity and independence and that appropriate guidance and standards for assuring objectivity among internal auditors was needed (Ahlawat and Lowe, 2004; Mutchler, 2003; Walker, 2002). In the light of

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1 There are two different frameworks of ERM to choose between: COSO ERM-Integrated Framework and ISO 31000 Risk Management - Principles and Guidelines on Implementation. The present study uses the COSO ERM-Integrated Framework.
these events, the IIA (2004) issued a position statement which stated that management holds the main responsibility for ERM and that internal auditing should provide advice and challenge or support decisions regarding risks made by management, as opposed to actually making the ERM-decisions. The IIA also decided to emphasise their statement by forming three categories of internal auditor roles in ERM-related activities: recommended roles, legitimate roles with safeguards and roles that should not be undertaken (IIA, 2004).

Even though the IIA (2004) created these roles, Stewart and Subramaniam (2010) state that these issues regarding internal audit objectivity and independence associated with ERM-related activities have still been seen in recent years. They further argue that the dual role of an internal auditor in being both an assurance-provider as well as a consultant working with ERM has become more obvious and that this dual role “has the potential to place the internal auditor in a situation of conflict” (Stewart & Subramaniam, 2010, p. 329), which could influence the internal auditor’s objectivity and independence. Several studies have concluded that even though internal auditors have a role to play within ERM-related activities, there is a risk of engaging in activities that could influence the internal auditors’ independence (Fraser & Henry, 2007; Gramling & Myers, 2006; Sarens & De Beelde, 2006a). Furthermore, de Zwaan et al. (2011) showed that a number of internal auditors engage in both recommended activities and activities that they should not undertake, according to the IIA (2004) guidelines, which in turn influences their objectivity.

Further, related to internal audit’s involvement in ERM and its influence on internal audit objectivity and independence are the relationships between various departments at organizations that work with ERM and how these relationships influence organizations’ ERM. The relationship between the internal audit department and the audit committee is one such relationship and de Zwaan et al. (2011) examined how internal audit’s relationship with the audit committee influenced internal audit’s willingness to report a breakdown in risk procedures. De Zwaan et al. (2011) had an expectation that because of the strong relationship, the internal auditor would be more willing to report a breakdown in risk procedures for which he/she is responsible for. However, their findings showed that a strong relationship with the audit committee does not appear to influence internal audit’s willingness to report. Further, Christopher, Sarens and Leung (2009) state that the relation between the internal audit department and the organization’s senior management is something that could influence internal auditors’ objectivity and independence.
They argue that there could be a threat to the internal auditor objectivity and independence if there is a too close relationship between the internal audit function and senior management and if senior management is heavily involved in developing the internal audit plan. Besides that, they state that internal auditors will not be able to be objective and independent when they are dependent on their auditees, i.e. senior management, for future career moves. Chambers and Odar (2015) also claim that the reporting of internal audit’s findings will be influenced depending on the relationship between internal audit and senior management. They argue that there have been many examples where internal audit has trimmed their reporting to the audit committee due to pressure from senior management, which is a sign of decreased internal audit objectivity and independence due to internal audit’s relationship with senior management.

In the light of previous discussion, and the debate regarding internal audit’s involvement in ERM-related activities, it is of importance to investigate whether high internal audit involvement in ERM-related activities could pose a threat towards internal audit objectivity and independence. To our knowledge, limited empirical research exists on the impact on internal audit’s independence and objectivity when it is highly engaged in ERM-related activities. Further, a too close relationship between senior management and internal audit could also pose a threat towards internal audit objectivity and independence. This leads up to the present study’s primary research question:

**RQ1:** How does internal audit’s involvement in Enterprise Risk Management-related activities and a strong relationship with senior management influence internal audit’s objectivity and independence?

In order to answer the present study’s primary research question, the present study will conduct a replication of the study undertaken by de Zwaan et al. (2011) where objectivity and independence were measured by examining internal audit’s willingness to report a breakdown in risk procedures. Therefore, in the present study, objectivity and independence will be measured in the same way. In the same way as objectivity and independence could be influenced by a high internal audit involvement in ERM-related activities, internal audit’s willingness to report a breakdown in risk procedures could also be influenced by a high internal audit involvement in ERM-related activities. Further, instead of investigating the internal auditor and audit committee relationship like de...
Zwaan et al. (2011), the present study focuses on the relationship between internal audit and senior management. Therefore, our secondary research question is:

**RQ2:** How does internal audit’s involvement in Enterprise Risk Management-related activities and a strong relationship with senior management influence internal audit’s willingness to report a breakdown in risk procedures?

### 1.3 Aim

The aim of the present study is to investigate how internal auditors’ objectivity and independence are influenced by a high level of internal audit involvement in ERM-related activities and a strong relationship with senior management. Further, the present study aims to investigate this by analysing internal audit’s willingness to report a breakdown in risk procedures. The results will then be analysed and discussed in order to investigate why the perceived objectivity and independence were influenced.

### 1.4 Contribution

The present study contributes to existing internal audit research by investigating how internal auditors perceive their involvement in ERM-related activities and if their point of view is in accordance with the IIA’s suggested roles on internal audit involvement in ERM-related activities (IIA, 2011a). Further, the respondents’ point of view contributes to existing research by investigating whether internal auditors in a Swedish context perceive IIA’s suggested roles (IIA, 2011) in the same way as internal auditors in Australia where de Zwaan et al. (2011) conducted their study. Differences regarding this could exist due to cultural differences and the regulatory environment (de Zwaan et al., 2011; Selim, Woodward & Allegrini, 2009; Sarens & De Beelde, 2006b).

The present study also contributes to existing internal audit research by investigating the relationship between internal audit and senior management and whether it can influence internal audit’s independence and objectivity. Although there has been research on the relationship between internal audit and senior management (e.g. Christopher et al., 2009; Sarens & De Beelde, 2006b), none have to our knowledge conducted a similar study to de Zwaan et al. (2011) in which both the relationship between senior management and internal audit is investigated as well as the internal audit involvement in ERM-related activities. Further, the present study’s focus on senior
management contributes by expanding the understanding of what characteristics define a weak and a strong relationship between senior management and internal audit. Also, regarding internal auditors’ dual role as an assurance-provider and consultant, the present study contributes with an additional understanding of the consequences of this dual role.
II LITERATURE REVIEW

The following section is comprised of four parts. It begins with an explanation of the internal audit profession (2.1), including notions of internal audit, its independence and objectivity, as well as the problem of internal audit’s dual role. Successively, the concept of ERM is presented and the relationship between internal audit and ERM (2.2) is scrutinized in order to gain a better understanding of how this relationship influences objectivity and independence of the former. Thereafter, part (2.3) examines the relationship of internal audit with senior management and the audit committee. The section ends with a summary and hypotheses (2.4).

2.1 The internal audit profession

2.1.1 Professional guidelines - internal audit, its independence and objectivity

In order to study what sort of influence the involvement of internal audit in ERM has on internal auditors’ objectivity and independence, the present study examines the concepts involved in this problem in depth. Thus, in this section the present study aims to review contemporary professional guidelines related to internal audit as well as internal audit objectivity and independence. Firstly, an examination of the definition of internal audit issued by the IIA (2012) is made, followed by a scrutiny of objectivity and independence stated in the International Standards for the Professional Practice of Internal Auditing (IIA, 2012). Secondly, the Code of Ethics (IIA, 2009a) is reviewed as it gives a deeper understanding of internal auditors’ objectivity.

The internal audit profession, through The Institute of Internal Auditors (IIA), has continued to redefine itself as various business risks and organizational complexities have evolved. Currently, the IIA uses the following definition:

> Internal auditing is 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, 2015 - Definition of internal auditing)
The aforementioned definition is generally accepted and used by, inter alia, the U.S. Securities and Exchange Commission (SEC), the New York Stock Exchange (NYSE) and other regulatory bodies. Thus, organisations that adhere to The Professional Practice of Internal Auditing (the IIA Standards) are expected to follow this definition. However, other organisations may choose to develop and follow their own definition in order to best meet their needs, as there is no regulatory requirement on how an organisation must define internal auditing (Protiviti, 2009). Hence, the present study uses the IIA’s definition of internal auditing.

Importantly, the above definition presented by the IIA includes both notions of objectivity and independence. While closely connected and sometimes wrongly used interchangeably (IIA, 2011b), these notions are strictly distinguishable by the IIA in International Standard 1100 for the Professional Practice of Internal Auditing (IIA, 2012, pp.3-4):

*Objectivity* is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

*Independence* is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

While notions of objectivity and independence are certainly related, it is obvious that they are two different concepts. The difference between these two notions appears to be that objectivity is a *state of mind* (the individual auditor’s judgment, biases, relationships and behavior), while independence is a *state of affairs* (Stewart & Subramaniam, 2010). The latter usually expressed in factual matters such as reporting relationships to the board of directors or another governing body to access information, people and records that enable internal auditors to operate with an objective attitude (Stewart & Subramaniam, 2010; IIA, 2011b). Thus, someone can be independent but not objective, and conversely, someone can be objective but not independent (IIA, 2011b).
As a state of mind, objectivity is further defined by the IIA, on an individual level, in close connection to conflict of interest (IIA, 2009c, p.1):

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

Another important guideline which defines ethical principles and rules of conducts of internal auditors is the Code of Ethics issued by IIA (2009a, p.1). Importantly, the Code of Ethics applies both to organizations and individual internal auditors. Objectivity is one of the four key principles and demands internal auditors to:

…exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Moreover, in order to be called objective according to the Code of Ethics (2009a, pp.1-2), an internal auditor must follow certain rules:

- shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment;
- shall not accept anything that may impair or be presumed to impair their professional judgment;
- shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

2.1.2 Internal auditors’ dual role – assurance versus consulting

As mentioned earlier, the role of the internal auditor has shifted from including strictly assurance services to highlighting a value-adding role that integrate more consultancy activities (Chapman, 2001). This balance between consulting and assurance activities has varied across time, being influenced by the economic and regulatory environment (Hass et al., 2006). Fadzil et al. (2005)
mention that a more traditional role within internal audit is the policeman role, which is associated with assurance activities. The second role as a business partner is one that has been introduced to internal auditing more lately and is associated with consulting activities (Fadzil et al., 2005). When acting as business partners, internal auditors are expected to provide expertise to assist the organization meeting its objectives while the role as policemen is viewed as an adversary looking for flaws (Fadzil et al., 2005). Van Perseum (2004) further mentions that internal auditors’ role has shifted towards more of a consultancy role, where internal auditors now see themselves as consultants rather than “policemen”. Even though these changes have occurred, it is essential to keep in mind that this movement is an ongoing process where the need for internal auditors to conform to high quality standards and stay objective and independent is still vital (Dlottenhofer, 2001; Mutchler, 2003). This raises concerns regarding the influence on objectivity and independence when having a dual role, which has led to several researchers investigating the matter (Brody & Lowe, 2000; Fraser & Henry, 2007; McCall, 2002; Selim et al., 2009). Brody and Lowe (2000) investigated the issue of the dual role by conducting an experimental questionnaire on 55 U.S. internal auditors in which they examined whether the internal auditors were able to provide objective feedback by determining if their judgement is dependent on their firm’s role. Ahlawat and Lowe (2004) also investigated this issue, although with a focus on in-house and outsourced internal auditors. These two studies found that the role of the firm does influence the participants’ judgement and suggest that internal auditors could not maintain their objectivity when acting as consultants.

Later studies have used other methods to investigate the influence on objectivity and independence when internal auditors hold a dual role, which in turn has led to mixed results. Selim et al. (2009) investigated this matter by conducting a comparative study of the consulting and assurance activities of IIA members in UK/Ireland and Italy. The consulting activities had increased in both countries since 1999, but the study showed mixed support to whether this dual role could compromise internal audit objectivity. Although the dual role is viewed as delivering positive benefits with regards to staffing, moral etc., 38 % of the internal auditors in the UK/Ireland experienced a decreased ability to be objective and independent when taking on this dual role, while 36% of the Italian respondents experienced an increased ability to be objective and independent (Selim et al., 2009). Selim et al. (2009) describe that these differences could be explained by differences in the nature of the consultancy activities undertaken in the different
countries and the mentality and perceived importance of independence in Italy. Ahmad and Taylor (2009) also conducted a similar study when investigating the effects of role ambiguity and role conflict on internal auditors’ commitment to their independence in Malaysia by having 101 internal auditors responding to a survey. In contrast to previous research, Ahmad and Taylor (2009) did not find a significant relation between the internal auditors’ independence and their role conflict arising from both having an assurance and consultancy role. This suggests that Malaysian internal auditors do not perceive any conflict between these two roles.

The dual role has in some cases been influenced by the audit committee and senior management, where the former governing body has supported an assurance role while the later governing body has supported a more consultancy-oriented role (Griffith, 1999). This could in turn have an impact on the internal auditors’ objectivity and independence (Van Peursem, 2004, Van Peursem, 2005; Sarens & De Beelde, 2006a; Christopher et al., 2009).

2.2 The relation between internal audit and ERM

2.2.1 ERM COSO

In August 2004, the Treadway Commission’s Committee of Sponsoring Organizations (COSO) issued its Enterprise Risk Management – Integrated Framework in order to help businesses to access and improve their internal control systems. That framework included the following definition of ERM:

A process, affected by an organisation’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the organisation, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of organization objectives.

COSO (2004, p.2)

According to COSO (2004), the framework was meant to provide:

- alignment of risk and strategy,
- improvement of risk response decisions,
- reduction in operational surprises and losses in the business environment,
- identification and management of multiple and cross-organization risks,
● identification of opportunities and
● improving deployment of capital.

Therefore, the present study uses COSO’s framework of ERM as it provides an enterprise-wide approach to risk management. That framework is based on identified leading practices and the development of consistent terminology and approaches that can be used by many organizations in meeting their objectives. Importantly for the authors of the present study, the Enterprise Risk Management – Integrated Framework expands on internal control, providing a more extensive focus on the broader subject of ERM (COSO, 2004).

2.2.2 Internal audit’s involvement in ERM-related activities

ERM-related activities within internal audit have increased during the last two decades (Allegrini & D’Onza, 2003; Fraser & Henry, 2007; Spria & Page, 2003; Walker, 2002). As discussed above, internal audit has become a key driver of ERM and nowadays provides both assurance and consulting services. However, there has been growing debate on which role the internal auditor should undertake within ERM-related activities (Walker, 2002).

In order to clarify the relationship between internal audit and ERM-related activities, the IIA of the United Kingdom and Ireland decided to issue a position statement that would clarify the internal auditor’s role in ERM-related activities (Beasley et al., 2006). In September 2004, this position was embraced as a global position statement by the IIA (2004), where an active role within risk management was supported:

The Institute emphasizes that organizations should fully understand that management remains responsible for risk management. Internal auditors should provide advice, and challenge or support management's decisions on risk, as opposed to making risk management decisions.

(IIA, 2004, p. 2)

Further, the IIA (2004) strictly defined three groups of roles of internal auditors in connection to ERM, in order to protect the objectivity and independence of the internal auditors (listed in detail under Figure 1). These three groups of roles are: core internal audit roles regarding ERM, legitimate internal audit roles that should be undertaken with safeguards; and roles that internal audit should not undertake.
When determining if internal audit should undertake a specific role is whether it may present significant challenges for internal auditors to stay objective and independent, if it improves the organization’s risk management and if self-review is avoided (de Zwaan et al., 2011, Thompson, 2013; IIA, 2009b). However, the IIA (2004) stated that the core roles of the internal auditor are to provide objective assurance to the board in regards to the effectiveness of an organization’s ERM activities (IIA, 2004). Moreover, research has shown that internal auditors in a number of firms do not follow the recommended roles given by the IIA. In a global online survey conducted by the IIA, 36% of the respondents were primarily responsible for their firms’ ERM (Gramling & Myers, 2006). Furthermore, the results from the global online survey undertaken by the IIA indicated on internal audit engagement in unsuitable roles, which could in turn lead to decreased independence and objectivity (Gramling & Myers, 2006). Fraser and Henry (2007) found similar results when undertaking various interviews with people within management from several listed UK firms:
finance directors, audit committee chairs, chief internal auditors, and risk directors. Furthermore, four audit partners from “Big Four” audit firms were also interviewed. The results from the interviews showed that the internal auditors played an important role regarding the ERM activities, but that there were concerns regarding the effect on internal audit’s independence (Fraser & Henry, 2007). Furthermore, Sarens and De Beelde (2006a) conducted a similar study on how internal auditors perceived their current role in risk management within U.S and Belgian firms and found similar results. Goodwin and Yeo (2001) mention that the IIA’s standards emphasize the importance of both the organizational independence of the internal audit function as well as the individual objectivity of the internal auditors themselves when engaging in ERM-related activities.

2.2.3 Overview of de Zwaan et al. (2011), and Stewart & Subramaniam (2010)

The issue regarding internal audit’s involvement in ERM-related activities has also been investigated in relation to other governing entities. In 2011, de Zwaan et al. carried out research on whether the level of Australian internal auditors’ involvement in ERM-related activities and their relations with the audit committee could influence the internal auditors’ objectivity. This research was undertaken by measuring internal auditors’ willingness to report a breakdown in risk procedures. In the study of de Zwaan et al. (2011), an experimental 2x2 between-subjects design based on the answers of 117 certified internal auditors in Australia, was used. The experimental 2x2 between-subject design involved high and low involvement in ERM-related activities as well as strong and weak relationships with senior management (de Zwaan et al., 2011). The empirical results showed that a high internal audit involvement in ERM-related activities had a direct impact on internal auditors’ willingness to report a breakdown in risk procedures to the audit committee. In other words, a high level of internal audit involvement in ERM poses a threat to internal auditors’ objectivity. The empirical findings of de Zwaan et al. (2011) also showed that majority of internal auditors are involved in core activities including providing assurance on risk management, while a smaller number indicated that they engaged in activities that could compromise their objectivity. The results also revealed that the likelihood of reporting a breakdown in risk procedures by internal auditors does not seem to be influenced by a strong relationship with the audit committee, regardless of the level of ERM involvement, which was not in accordance with de Zwaan’s et al. (2011) expectations. However, the study’s methodological framework creates several obstacles in terms of generalizability due to their experimental design (Saunders, Lewis & Thornhill, 2009; de Zwaan et al., 2011).
2.3 Internal audit: its relationship with the audit committee and senior management

Much of academic literature published during the past couple of decades have focused on the need for strong and effective corporate governance (Stewart and Subramaniam, 2010; Goodwin, 2003). That tendency has led to increasing debates concerning the relations between the audit committee, senior management and internal auditor. Thompson (2013) mentions that internal audit is often asked to serve two masters: those primarily responsible for governance (audit committee) and those being governed (senior management).

2.3.1 The relationship between internal audit and the audit committee

As pointed out by the IIA itself (2002) as well as several researchers (Goodwin, 2003; Gramling and Myers, 2006; McHugh and Raghunandan, 1994), a strong working relationship between internal audit and the audit committee is highly important for each to fulfill their responsibilities and leads to improved corporate governance. Moreover, when accessing relations between the audit committee and internal audit, many authors describe the relations as positively “reciprocal” (Goodwin and Yeo, 2001) or “closely intertwined” (Scarborough et al, 1998). Relations between internal auditors and the audit committee can further be described as mutually beneficial, as: i) cooperation with the audit committee enhances the status of internal auditors and decreases the risk of financial misstatement (Abbott, Parker and Peters, 2010); and ii) the audit committee acts as an independent forum for internal auditors to raise matters which may influence management (Goodwin & Yeo, 2001; Braiotta, 1999). In its turn, internal audit can assist the audit committee in overcoming the information asymmetry problem which appears as the audit committee does not have the access to the same level of information as senior management (Raghunandan et al, 2001). Further, as stated by the IIA (2002), open lines of communication between internal audit and the audit committee help to achieve maximum benefit for an organization, ensuring that internal auditors have regular and confidential access to the audit committee. That open communication therefore makes it possible for internal audit to take up questions of sensitive nature that influence management, while the audit committee in its turn get access to the information that it would not otherwise have (Braiotta, 1999; Bishop, Hermanson, Lapides and Rittenberg, 2000).
2.3.2 The relationship between internal audit and senior management

Although Scarbrough, Rama and Raghunandan (1998) argue that relations between senior management and internal audit has a significant impact on the effectiveness of the latter, the number of theoretical and empirical studies that have investigated the relationship between senior management and internal audit is, according to Sarens and De Beelde (2006b), limited. There are, however, several administrative characteristics which have been identified in the relationship between senior management and internal audit, such as senior management’s support of internal audit’s day-to-day activities and planning as well as the communication between the two (Sarens & De Beelde, 2006b). Furthermore, senior management and internal audit often have a strong direct or indirect relationship, which makes senior management quite influential over internal audit (Sarens & De Beelde, 2006b). However, studies that have investigated the area of relations between senior management and internal audit have split into two camps. On one hand, some studies have revealed that senior management tends to support the more traditional role of internal audit, such as providing assurance through various checks and investigations (Ridley and D'Silva, 1997; Cooper, Leung and Mathews, 1996). On the other hand, a study of Griffiths (1999) showed that senior management would like to see internal audit as a more risk-, consulting- and operationally-oriented innovative segment.

Internal audit involvement in risk management and decision making activities seems to create a too close cooperation with senior management towards achieving their goals which negatively threatens the objectivity and independence of the internal auditors (Thompson, 2013). It is argued that those auditors who are able to set their own agenda without to much interference from senior management, seem to be the most powerful as they can independently select what and when to audit (Van Peursem, 2004; Van Peursem and Vinten, 2005; Sarens & De Beelde, 2006b). However, when senior management determines the internal audit department’s budgetary resources it makes internal audit more dependent on senior management, which in turn makes internal audit less independent (McHugh & Raghunandan, 1994; Christopher et al., 2009).

According to Stewart & Subramaniam (2010), Sarens & De Beelde (2006b) state that when internal auditors focus on a role that mainly supports management, a lack of perceived objectivity occurs. Working too closely with senior management can also result in social pressure threats due to internal auditors being aware of senior management's desire to see an added organisational value in their work (de Zwaan et al., 2011). Furthermore, Christopher et al. (2009) identified threats to
independence when senior management sees the internal audit function as a “training ground” (Christopher et al., 2009, p. 214) for future senior managers and if senior management is too involved in the internal audit planning. Thus, having a strong relationship with senior management could in some cases influence internal audit’s objectivity and independence.

2.4 Summary

As the literature review has showed, the internal audit profession has continued to redefine itself over the years. It now includes various definitions and it is up to the specific organisation to choose the definition it prefers (Protiviti, 2009). In the present study, the IIA’s definition of internal auditing has been used. Associated with internal auditing are the two important concepts of independence and objectivity. Even though these two concepts are closely connected with each other (IIA, 2011b), they are still to be considered distinguishable where objectivity is explained as a state of mind and independence a state of affairs (Stewart & Subramaniam, 2010).

The role of the internal auditor has seemed to shift from including strictly assurance activities to include more consultancy activities (Chapman, 2001). The assurance activities are associated with a policeman role while the consultancy activities are linked to a business partner role (Fadzil et al., 2005). The dual role of internal audit has raised concerns regarding the influence on internal audit’s objectivity and independence and several researchers have examined this issue (Brody & Lowe, 2000; Fraser & Henry, 2007; McCall, 2002; Selim et al., 2009). Most of the findings confirm this concern as they indicate that it is a dilemma for internal auditors to stay objective and independent when taking on this dual role. Some findings also prove that cultural differences could have an effect on how internal auditors examine the influence of the dual role on their objectivity and independence (Ahmad & Taylor, 2009; Selim et al., 2009). Further, other studies indicate that the dual role could be persuaded by the audit committee and senior management and that this could have an influence on internal audit objectivity and independence (Griffith, 1999; Van Peursem, 2004, Van Peursem, 2005; Sarens & De Beelde, 2006a; Christopher et al., 2009).

According to several authors, ERM-related activities have increased during the last two decades (Allegrini & D’Onza, 2003; Fraser & Henry, 2007; Spria & Page, 2003; Walker, 2002) and a debate of what the internal auditor’s role in these activities should be has been seen (Walker, 2002). This lead to that the IIA (2004) defined three groups of roles of internal auditors regarding their
involvement in ERM and various studies suggest that internal auditors do often take on roles that indicate involvement in ERM-related activities and could therefore influence internal audit objectivity and independence (Gramling & Myers, 2006; Fraser & Henry, 2007; Sarens and De Beelde, 2006a; Goodwin and Yeo, 2001).

Further, de Zwaan et al. (2011) examined internal audit’s involvement in ERM-related activities in relation to other governing bodies. Studying the relationship between internal audit and the audit committee, they found that a high involvement in ERM-related activities had an impact on internal audit’s willingness to report a breakdown in risk procedures to the audit committee. They also revealed that the likelihood of reporting a breakdown by internal auditors does not seem to be influenced by internal audit’s relationship with the audit committee.

The expanded focus on strong and effective corporate governance has led to increased debates about the relations between the audit committee, senior management and internal audit (Stewart & Subramaniam, 2010; Goodwin, 2003) where internal audit is often asked to serve both the audit committee and senior management (Thompson, 2013). Internal audit’s relationship with the audit committee is explained as mutually beneficial and leads to improved corporate governance (Abbott, Parker & Peters, 2010; Goodwin, 2003; Gramling & Hermanson, 2006; McHugh & Raghunandan, 1994). Further, the numbers of studies that have examined internal audit’s relationship with senior management are limited (Sarens & De Beelde, 2006b). However, studies have identified that senior management either supports a more traditional internal audit assurance role or a more consulting-like role (Ridley and D’Silva, 1997; Cooper, Leung and Mathews, 1996; Griffiths, 1999). Connected to these roles, several authors have indicated that a too close cooperation between internal audit and senior management could influence the former’s objectivity and independence (Thompson, 2013).

Based on the literature that the present study is built on and the replication of de Zwaan et al. (2011), the following hypotheses have been created in order to analyse the present study’s empirical data:

**H1.** The internal auditors’ willingness to report a breakdown in risk procedures to the audit committee will be lower when they have a higher level of involvement in ERM than if they would have a low level of involvement in ERM.
$H2$. Perceptions of internal auditors’ willingness to report a breakdown in risk procedures to the audit committee will be higher when there is a weak internal audit-senior management relationship compared to when the relationship is stronger.
III METHODOLOGY

Chapter 3 presents the methodological design utilized for the present study. The chapter begins with a presentation of the research method (3.1) that includes a description of the study type, sample selection, questionnaire design and administration, test of questionnaire, data collection and its further processing. Following the research method, an experimental design (3.2) of the study is presented. Finally, the research ethics (3.3) is presented.

3.1 Research method

3.1.1 Quantitative research

The present study employs a quantitative methodology for both collection of the data and its further analysis. As it is common for quantitative research, a deductive approach has been adopted. A deductive approach entails the deduction of hypotheses (i.e. a testable proposition about the relationship between two or more variables), which are then tested empirically (Saunders et al., 2009). Based on this approach, two hypotheses have been generated in order to answer the present study’s research questions and find an answer to the overall research aim, namely, how internal auditors’ objectivity and independence are influenced by closer involvement in ERM-related activities and by a strong relationship with senior management. Data was collected for one dependent and two independent variables. A 2x2 between-subjects experimental design with a Mann-Whitney U-test was adopted in order to test the hypotheses. The data was obtained with the help of an Internet-mediated questionnaire.

3.1.2 Sample selection

Similarly to the study of de Zwaan et al. (2011), the respondents of the present study were internal auditors. All the internal auditors were members of the IIA Sweden, as IIA is a global internal audit professional association that has more than one hundred and eighty thousand members (IIA, 2015). However, the study of de Zwaan et al. (2011) was based on only members of IIA Australia holding a Certified Internal Auditor qualification (CIA)\(^2\). Further, it is possible that those

\(^2\) The Certified Internal Auditor (CIA) designation is the only globally accepted certification for internal auditors and remains the standard by which individuals demonstrate their competency and professionalism in the internal auditing field. CIA is the most highly sought after global certification for internal auditing professionals and sets the standard for excellence within the profession (IIA, 2015).
participants of the study carrying such a high professional degree might have considerably higher standards regarding professional objectivity and independence than those internal auditors who do not hold such degree (Harrell, Taylor & Chewning, 1989). Therefore, the authors of the present study did not aim to access only internal auditors with the CIA qualification, but distributed the questionnaire among all the members of the IIA Sweden despite their qualification. The target group was the population of members who have been working as internal auditors for at least three years.

3.1.3 Questionnaire design and administration

The questionnaire consisted of two parts. The first part of the questionnaire included data which was used to answer how internal auditors perceive the three ERM-group of roles created by the IIA (2011a): core internal audit roles regarding ERM, legitimate internal audit roles that should be undertaken with safeguards and roles that internal audit should not undertake. The second part included data which meant to answer the present study’s two hypotheses. The first part was represented only by a set of rating questions while the second part included one experimental study made up of four different versions. Both parts were meant to be answered by using bipolar numerical rating scales (Bryman and Bell, 2011). The first part of the questionnaire started with a set of questions about the respondents’ professional backgrounds followed by questions connected to internal auditors’ perception of IIA’s (2011a) ERM-group roles. In order to reach high comparability with the study of de Zwaan et al. (2011), the present study used the same level of scale differentiation. Therefore, the first part of the questionnaire was answered using an odd 1-5 scale (where 1=”No Responsibility” and 5=”Total responsibility”), while the questions from the second part of the questionnaire were answered using a 1-9 scale (where 1=“Very low likelihood/Highly Unlikely” and 9=“Very high likelihood/Highly Likely”). These two scales could have posed a risk that the respondents would have interpreted the numbers within the scales differently. However, the present study chose to follow de Zwaan’s et al. (2011) study and therefore did not specify what the different levels within the scale exactly stand for.

Due to the sensitive nature of objectivity and independence, the authors of the present study asked the questions in third person rather than directly asking what the actual respondent himself/herself would do, following O’Leary and Stewart (2007) and Ponemon and Gabhart (1993). That in its
turn was meant to provide a more reliable answer of what the respondents actually believe, according to the aforementioned authors.

3.1.4 Test of questionnaire
In order to maximize the value of the respondents’ answers, a test of the present study’s questionnaire was conducted. This test allowed the authors of the present study to minimize the mistakes and errors that otherwise would have decreased the quality of the questionnaire. Therefore, the test of the questionnaire resulted in a higher quality of the present study.

The test was completed by two people who have several years of experience within the field of internal audit. The first person works with internal auditing at one of the biggest Swedish banks and holds a PhD degree in internal auditing. The second person works for IIA Sweden. After the completion of the test the authors of the present study received feedback regarding the structure of the survey, if the questions would be well-understood by internal auditors, as well as how the authors of the present study could ensure that the respondents’ answers would become as objective and independent as possible. The feedback resulted in that a few corrections in the questionnaire were made and the authors of the present study were after that able to finalize it and send it out to the IIA Sweden.

3.1.5 Data collection
In order to collect primary data, an Internet-mediated questionnaire was used. The questionnaire was created using Google Drive and sent to the IIA Sweden. The IIA Sweden distributed the link among their members via e-mail. The present study’s data collection methods enabled the authors of the present study to examine and explain the relations between variables in practical cause-and-effect relationships between senior management and internal auditors. Moreover, an Internet-mediated type of data collection allowed us to cover a wide range of respondents.

The questionnaire was distributed to a total of 600 respondents through the IIA. These 600 were divided into four different groups, 150 respondents in each group, because of the present study’s experimental design that includes four different cases. Of the 600 questionnaires distributed, a total of 36 were replied to, resulting in a response rate of 6%. The questionnaire of the present study was sent out during the high season for auditors in Sweden which could have negatively affected the response rate due to the internal auditors’ lack of time. The IIA requested to control the contact
itself with the respondents instead of letting the authors of the present study receive the respondents’ contact information.

As the understanding of the low response rate of the present study developed during the conduct of the study, the authors of the present study decided to take responsive actions. Therefore, after the questionnaire was sent out to the respondents by the IIA, the authors of the present study e-mailed the IIA and kindly requested the association to send out an e-mailing reminding the respondents to complete the questionnaire. Unfortunately, the IIA dismissed the request. As the authors of the present study realized that no more answers were being submitted, another e-mail was sent out to the IIA kindly requesting the association again to e-mail the respondents and ask them to complete the questionnaire. This time the IIA accepted the request and sent out an e-mail to the respondents. However, this e-mail did unfortunately not result in any more submissions. Since the authors of the present study did not receive the respondents’ contact information by the IIA, no direct contact with the respondents was enabled to be taken. The respondents within the different groups were distributed as shown in Table I.

Table I – Distribution of respondents

<table>
<thead>
<tr>
<th>Strong senior management</th>
<th>High involvement in ERM</th>
<th>Low involvement in ERM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group 4</td>
<td>Group 1</td>
</tr>
<tr>
<td></td>
<td>13 respondents</td>
<td>7 respondents</td>
</tr>
<tr>
<td>Weak senior management</td>
<td>Group 2</td>
<td>Group 3</td>
</tr>
<tr>
<td></td>
<td>9 respondents</td>
<td>7 respondents</td>
</tr>
</tbody>
</table>

Table I - Distribution of respondents in accordance with their respective group

As it was mentioned before, the present study received 36 answers, while the study of de Zwaan et al. (2011) based their analyses on 117 answers. The small number of respondents means that even though the results might be significant the results have to be interpreted with caution, especially since the study’s respondents have been divided into four different groups. The higher response rate in the study of de Zwaan et al. (2011) might be explained by a different survey approach as de Zwaan et al. (2011) mailed out the questionnaires physically with enclosed prepaid envelopes.
Table II – Background of respondents

<table>
<thead>
<tr>
<th>Age (n= 36)</th>
<th>18-25</th>
<th>26-35</th>
<th>36-45</th>
<th>46-55</th>
<th>56+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age groups:</td>
<td>Count</td>
<td>0</td>
<td>3</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Percentage</td>
<td>0.00%</td>
<td>8.33%</td>
<td>27.78%</td>
<td>33.33%</td>
</tr>
<tr>
<td>Length of time in current organization (years)</td>
<td>Mean</td>
<td>7.42</td>
<td>5.46</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Length of time as an internal auditor (years)</td>
<td>Mean</td>
<td>10.64</td>
<td>6.49</td>
<td>9.5</td>
<td>3</td>
</tr>
<tr>
<td>Length of time as a member of the IIA Sweden (years)</td>
<td>Mean</td>
<td>9.06</td>
<td>5.15</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Percentage prior management experience</td>
<td>Prior Experience</td>
<td>75.00%</td>
<td>No prior experience</td>
<td>25.00%</td>
<td></td>
</tr>
<tr>
<td>Sector employed</td>
<td>Public sector</td>
<td>44.44%</td>
<td>Private sector</td>
<td>55.56%</td>
<td></td>
</tr>
</tbody>
</table>

Table II - Background information of the respondents is presented.

Table II presents the descriptive statistics of the respondents. More than half of the respondents (64%) are over 46 years of age. The mean number of work experience as an internal auditor is 10.64 (SD = 6.49), where approximately 81% of the respondents have between five and 20 years of experience. The mean number of length of time as a member of the IIA Sweden is also a high number of 9.06 years (SD=5.15). Furthermore, 75% of the respondents have prior experience of a manager position. There is also a fairly equal fragmentation between respondents from the public sector (44.44%) and the private sector (55.56%). However, little difference has been discovered with regards to how internal auditors from the public and private sector interpret their profession and responsibilities (Goodwin, 2004). Thus, despite the 6% response rate, it can be concluded that the answers have been obtained from solidly experienced internal auditors which makes the answers very valuable. Moreover, the high amount of previous management experience (75%) among the respondents increases the notion that the respondents would correctly have understood the experimental study with involvement of senior management, which also leads to a valuable outcome. Further, the respondents that have not worked with ERM have been included within the present study since they still contribute with valuable experience and their opinions about ERM. Even though they have not been in direct contact with ERM, the concept of ERM, as mentioned
in the literature review, is common among internal audit nowadays which results in that internal auditors are well aware of the concept and its influence on the internal audit profession. Furthermore, the size of the respondents’ firms was not an included characteristic in the present study due to the notion that this characteristic has not been emphasized in previous research about ERM. Regarding the experience of internal auditors, three years of experience was chosen since this is considered an acceptable level of experience (de Zwaan, et al, 2011).

3.1.6 Data process
The first part of the questionnaire was compared to the theoretical framework as well as de Zwaan’s et al. (2011) results regarding the internal auditors’ current responsibility. The second part of the questionnaire was analysed according to the present study’s hypotheses and theoretical framework.

The second part of the questionnaire’s data was analysed by conducting a Mann-Whitney U-test, which is a nonparametric equivalent of independent groups t-test and is often used if the sample size is relatively small (Saunders et al., 2009). Therefore, due to the present study’s sample size being relatively small the Mann-Whitney U-test seemed more appropriate. If the likelihood that any differences would occur between the groups as a result of random chance being low, it will result in a large U statistic and with a probability of less than 0.05 (Saunders et al., 2009). This will in turn mean that the results are statistically significant.

Due to the Mann-Whitney U-test being a nonparametric test, the data does not need to be normally distributed. This is one of the problems that de Zwaan et al. (2011) faced when conducting their t-test and ANOVA-analysis, a problem which the present study did not encounter. Furthermore, a t-test compares the means of the populations. Because the mean is calculated by adding together all of the values and then calculating the average number, there is a risk that a single extreme value can be quite influential. Instead of comparing group’s means, the Mann-Whitney U-test compares the medians, which allowed the authors of the present study to mitigate the influence of the extreme values.

3.2 Experimental design
As mentioned before, the present study has replicated the experimental design used by de Zwaan et al. (2011) in order to answer the research questions of the present study. In the study of de Zwaan
et al. (2011), a so-called 2x2 (two-by-two) between-subjects experimental design was conducted resulting in four different cases (see Appendix I). Such experimental design is used to study whether the independent variable influences the dependent variable by manipulating the former one (Bryman and Bell, 2011). The advantage of the 2x2 between-subjects design is therefore that it allows to test two or more variables as well as to reveal interactions between those variables within the same experiment. Thus, the present study manipulated two independent variables (extent of internal auditors’ involvement in ERM and the relationship between senior management and internal audit) in order to study their effect on the dependent variable (the willingness of the internal auditors to report a breakdown in risk procedures). The disadvantage of the experimental design is that the questions are not directly connected to the real-life personal experiences of the respondents. Instead, the respondents’ answers are based on someone else’s actions and not their own, as compared to studying the respondents’ actual real-life cases or experiences (Saunders et al., 2009). Furthermore, due to the specific composition of the 2x2 between-subjects design, experiments can become too large in scale as they include several factors. These disadvantages can therefore make it more difficult to generalise the results.

The present study’s experimental scenario involved a Chief Internal Auditor (Johan Johansson) who must decide whether or not to present a special report of a breakdown in the risk-procedures to the audit committee. The breakdown in the risk-procedures is described as a discovery made by one of the internal audit staff members. Similarly to de Zwaan et al. (2011), the breakdown in the case scenario was not discovered by the external auditors and was described as resulting in serious long-term consequences. This scenario aimed to show the seriousness of the breakdown, while still allowing the internal auditor to correct the risk procedure himself or herself. The responsibility to report the breakdown to the audit committee was therefore meant to be indicated as the chief internal auditor’s responsibility and could have resulted in various influences on the parties involved.

Similarly to de Zwaan et al. (2011), the firm in the experiment was described as a large hypothetical publicly listed firm named Omega that had a moderate profitability and medium-level risk. These factors were all the same in all four versions of the case that the respondents received. Further, the factors regarding the firm’s structure and its composition were provided in the case
scenario in order to create a stable and neutral firm. They meant to prevent influencing the respondents and rather enable them to have an objective view of the firm.

Replicating de Zwaan et al. (2011), the experimental scenario also included a strong independent and experienced board of directors and external auditors from a top-tier audit firm. The external auditors of the firm described in the case have been working with this specific audit engagement for five years and have not conducted any non-audit services. This information was provided in order to create an image of the external auditors as fully independent.

Following de Zwaan et al. (2011), information regarding the internal audit department was provided as a part of the case scenario and involved an experienced and reasonable strong chief internal auditor as well as qualified staff. The internal audit responsibility over ERM-related activities involved regular review and assurance of management’s key risks. The oversight of the ERM however was described as the audit committee’s responsibility.

3.2.1 Independent variables

An independent variable is a variable that causes changes in a dependent variable (Saunders et al., 2009). The first independent variable in the present study was therefore the level of internal audit involvement in ERM, which was manipulated as either being on a high or low level (See Appendix I). An internal auditor is considered having a low level of involvement in ERM-related activities if his/her role only involves core activities according to the IIA (2012). The high level of involvement in ERM means that he/she follows the roles and activities classified as core, legitimate and those that should not be undertaken (IIA, 2012). Because of the fact that the present study is a replication of de Zwaan et al. (2011), a definition of what high as well as a low level of ERM-involvement is was already given to the authors of the present study. Therefore, an operationalization of this variable was not needed.

The second independent variable in the present study involved the relationship between senior management and internal audit. Due to contemporary literature not providing an unified definition of what a strong and weak relationship between senior management and internal audit is, the present study used several different senior management characteristics which were developed in order to classify whether this relationship could be seen as weak or strong. These characteristics were identified by studying and analysing the theoretical framework of McHugh and Raghunandan
(1994); Goodwin and Yeo (2001); Sarens and De Beelde (2006b); Christopher et al. (2009); Abbott et al. (2010); and de Zwaan et al. (2011), in order to find the most important and relevant characteristics for the present study. Six characteristics were identified and adopted from the theoretical framework, which were then developed by the authors in order to incorporate them in the experimental design. The characteristics were then either enhanced or decreased in order to create a strong or weak relationship between senior management and internal audit. However, the identified characters might be seen as a strong positive relationship by some, while others might see them as a strong negative relationship. These six characteristics are explained in the following paragraphs.

**Senior management’s support of internal audit’s day-to-day activities.** This characteristic is of a more administrative character, identified by Sarens and De Beelde (2006b). However, it is connected to senior management's ability to see internal audit as an independent organ but still providing senior management with support. Therefore, if this characteristic is strong, senior management will be involved in internal audit’s daily activities. Senior management will also be actively involved in important issues of internal audit, such as new appointments, dismissal, compensations, etc. If this characteristic is weak, senior management will in turn not be as interested in the internal audit’s daily activities and not be as much involved.

**Open and direct communication between senior management and internal audit.** This characteristic is also identified by Sarens and De Beelde (2006b) and is of a more administrative character. If this characteristic is classified as strong, senior management will have a more open and direct communication with internal audit, where senior management will meet at least six times throughout the year with internal audit. Senior management will also set aside time to meet privately with the Chief Internal Auditor. Further, senior management will pay close attention to matters raised in internal audit’s reports. If this characteristic is classified as weak, senior management will meet up with internal audit only twice a year, and hold few private meetings with the Chief Internal Auditor. When reviewing the internal audit reports, senior management will generally leave it to the Chief Internal Auditor to follow up on recommendations.

**Senior management’s input for internal audit planning.** This characteristic is identified by Sarens and De Beelde (2006b) and describes how much senior management is involved in planning,
reviewing and approving the annual internal audit. It also involves reviewing the purpose of internal audit, its authority, responsibilities, performance and questions regarding internal audit’s financial resources (McHugh & Raghunandan, 1994; Christopher et al., 2009). Therefore, if this characteristic is strong, senior management will be more involved in regards to these matters. If this characteristic is weak, senior management will instead leave more responsibility to the Chief Internal Auditor.

**Senior management’s independence and competence.** As with the audit committee, senior management needs to stay independent and be competent (de Zwaan et al., 2011). Therefore, if this characteristic is strong, all members of the strong senior management will be independent and have considerable financial or industry experience. If this characteristic is weak, the majority of senior management will include independent managers with some financial and industry experience.

**Senior management’s interference with the audit committee’s relationship with internal audit.** In order for internal audit to be effective and decrease the risk of financial misstatements within the organization, it needs to have a good relationship with the audit committee (Abbott et al., 2010; de Zwaan et al. 2011). Therefore, if this characteristic is strong, senior management will play a greater role in the monitoring and interfering with the audit committee’s relationship with internal audit. This will in turn lead to the audit committee having a smaller monitoring role. If this characteristic is weak, senior management will view the audit committee’s monitoring of internal audit as a priority and as a vital part of internal audit’s structure.

**Using internal audit as a “training ground” for senior management.** Several researchers have identified the threat of seeing internal audit as a “training ground” for senior management if the relationship between senior management and internal audit is too strong (Sarens & De Beelde, 2006a; Christopher et al., 2009; Goodwin & Yeo, 2001). This could be explained as seeing internal auditing mostly as a stepping stone towards becoming a part of senior management. Therefore, if this characteristic is strong, senior management will view internal auditing as a “training ground” to develop future managers. If this characteristic is weak, senior management will not tend to use internal auditing as a “training ground”.
3.2.2 Dependent variable

A dependent variable is a variable that changes in response to changes in independent variables (Saunders et al., 2009). The dependent variable of the present study consisted of whether the respondents thought that the Chief Internal Auditor, Johan Johansson, should have presented a special report regarding the breakdown to the audit committee and then followed the firm’s policies. If Johan did not choose to report the breakdown, he would instead have quietly corrected the risk procedures himself without notifying the audit committee. A high score of the respondents’ replies (close or equal to 9 which is “highly likely”), did therefore indicate that the internal auditor remained objective, while a low score would prove the contrary.

3.3 Research ethics

Ethical concerns regarding business research revolve around such interests as how the researchers should treat the respondents of the study and if there are any activities that the researchers should not engage in together with the respondents (Bryman and Bell, 2011). It was critical for the authors of the present study to follow ethical principles when the research was conducted. These ethical principles can be divided into four main areas: whether there is harm to the respondents, whether there is lack of informed consent to the respondents, whether there is invasion of privacy and whether deception is involved (Bryman and Bell, 2011). The principle regarding harm was prevented by letting all the respondents in the present study complete the survey in a self-picked environment where they felt safe and their participation did not have any effect on their careers, as the respondents were completely anonymous and their responses were kept confidential. Regarding the principle about information consent, the authors of the present study informed the respondents that their participation was absolutely voluntary. The principle about invasion of privacy was assured by sending out the links to the respondents via the IIA Sweden, which guaranteed that the authors of the present study did not have any direct contact with the respondents. Therefore, the authors of the present study remained unaware of any of the respondents’ privacy-related information. Finally, the authors of the present study adhered to the deception principle as the information given out was carefully reviewed several times in order to reach full accuracy.
IV  EMPIRICAL RESULTS AND ANALYSIS

Chapter 4 presents the results of the empirical tests introduced in chapter 3. Firstly, the ERM status in the respondents’ organizations (4.1) and their current responsibility regarding the ERM roles (4.2) are presented. Successively, manipulation checks and tests for confounding variables (4.3) are presented, followed by the likelihood analyses of disclosure to the audit committee (4.4).

4.1  Organizational ERM status

Part A of the questionnaire required the respondents to answer questions regarding ERM-related activities within their organization and this part was designed to be comparable to de Zwaan’s et al. (2011) study. The presented study is grounded on data collected in 2015 while de Zwaan’s et al. (2011) study is based on data collected eight years earlier in 2007.

In the first question, the respondents had to answer what the current ERM status of their organization is and the responses to this question are presented in Table III. The results show that 22.2% of the respondents’ organizations have not considered ERM, which is more than twice as much as in de Zwaan’s et al. (2011) study. Around 8.3% of the organizations are still considering the relevance of ERM usage, compared to 12.8% in de Zwaan’s et al. (2011) study. More than 61% of the organizations have adopted ERM, compared to 75% in de Zwaan’s et al. (2011) study. In most of the cases the implementation recently happened and is still incomplete (33.3%) or the organization adopted it several years ago and the infrastructure is relatively mature (25.0%). The present study has one respondent working for an organization that has rejected ERM, while de Zwaan’s et al. (2011) study has none. Overall, it can be concluded that a fairly big amount of respondents (61%) have adopted or are within the process of adopting ERM, even though this number is not as high as in de Zwaan’s et al. (2011) study (75%). However, even though these respondents have not worked with ERM directly, they can still contribute with valuable experience and their opinions about ERM since ERM has become such a well-known concept within the internal audit profession.
Table III
ERM status in respondents’ organizations (%)

<table>
<thead>
<tr>
<th>ERM status</th>
<th>This Study n=36</th>
<th>de Zwaan et al. n=117</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization has not considered ERM</td>
<td>22.2 %</td>
<td>10.3 %</td>
</tr>
<tr>
<td>The organization is currently considering the relevance of ERM for its enterprise</td>
<td>8.3 %</td>
<td>12.8 %</td>
</tr>
<tr>
<td>The organization has recently adopted ERM, but implementation is not fully complete</td>
<td>33.3 %</td>
<td>44.4 %</td>
</tr>
<tr>
<td>The organization has recently adopted ERM, and implementation is relatively mature</td>
<td>2.8 %</td>
<td>17.1 %</td>
</tr>
<tr>
<td>The organization adopted ERM several years ago, and infrastructure is mature</td>
<td>25.0 %</td>
<td>13.7 %</td>
</tr>
<tr>
<td>The organization has rejected ERM</td>
<td>2.8 %</td>
<td>0.0 %</td>
</tr>
<tr>
<td>Other</td>
<td>5.6 %</td>
<td>0.9 %</td>
</tr>
<tr>
<td>Response not provided</td>
<td>0.0 %</td>
<td>0.9 %</td>
</tr>
</tbody>
</table>

Table III – the ERM status of the different respondents’ organizations

4.2 Current responsibility for ERM roles
In the second part of part A of the questionnaire, the respondents indicated on a five-point scale the level of their current responsibility regarding the various roles of internal audit in ERM listed in Figure I. As mentioned, the IIA (2011) categorizes the roles as core, legitimate with safeguards, and those that internal audit should not undertake. Both the results of the present study and de Zwaan’s et al. (2011) study are presented in Table IV to enable comparison. The present study compares de Zwaan’s et al. (2011) results regarding current responsibility. Regarding the core roles lined up in panel A, the high mean numbers among the present study’s respondents indicate that they more distinctively examine these activities as core and consider participation within these activities compared to the respondents in de Zwaan’s et al. (2011) study. Thus, the respondents of the present study seem to have a more objective and independent attitude regarding these ERM-related activities. The results regarding the legitimate roles with safeguards presented in panel B are fairly similar between the present study and de Zwaan’s et al. (2011) study. There are neither any major differences between the mean numbers of the two studies regarding the roles internal auditors should not undertake presented in panel C. However, in five out of the six questions, the mean number is lower in the present study compared to the de Zwaan’s et al. (2011). This indicates
the same trend that appeared for panel A’s questions in that the present study’s respondents are more objective and independent than de Zwaan’s et al. (2011) respondents.

As mentioned, internal auditors have started to act more as business partners which is associated more with consulting based activities (Fadzil et al., 2005; Van Perseum, 2004). However, the results of the present study show that the IIA’s (2011a) ERM-core roles associated with assurance seem to be more important among the respondents, which could mean that they do not wish to engage in roles that could endanger their objectivity and independence (Sarens & De Beelde, 2006a; Fraser & Henry, 2007; Goodwin & Yeo, 2001). This could be compared to the results presented in the study by Gramling and Myers (2006), were internal auditors took on roles that were not recommended.

The respondents of the present study indicate that it is more important for them to stay objective and independent instead of participate in consulting-based activities which could lead to decreased objectivity and independence, which is not in accordance with Ahmad and Taylor (2009). In other words, the notion of remaining objective and independent does after all seem to outweigh the notion of appearing as a business partner with a broader expertise and a potential increased value of internal auditors. Further, an argument could also be made for that different perceptions on the group of roles given by the IIA (2011a) could be due to cultural differences as Selim et al. (2009) found in their study. It is important to keep this in mind when comparing the results of the present study with the results of de Zwaan’s et al. (2011) study as the former took place in a Swedish context while the latter in an Australian.

<table>
<thead>
<tr>
<th>Current Responsibility</th>
<th>This study(n=36)</th>
<th>de Zwaan(n=117)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: Core Internal Auditing Roles in ERM</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Giving assurance on risk management processes</td>
<td>4.72 (0.56)</td>
<td>3.71 (0.99)</td>
</tr>
<tr>
<td>Giving assurance that risks are correctly evaluated</td>
<td>3.58 (1.23)</td>
<td>3.18 (1.10)</td>
</tr>
<tr>
<td>Evaluating risk management processes</td>
<td>4.61 (0.64)</td>
<td>3.44 (1.05)</td>
</tr>
<tr>
<td>Evaluating the reporting risks</td>
<td>4.55 (0.69)</td>
<td>3.05 (1.13)</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Reviewing the management of key risks</td>
<td>4.69 (0.47)</td>
<td>3.39 (1.13)</td>
</tr>
<tr>
<td><strong>Panel B: Legitimate Internal Auditing Roles with Safeguards</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilitating identification and evaluation of risks</td>
<td>2.38 (1.02)</td>
<td>2.84 (1.14)</td>
</tr>
<tr>
<td>Coaching management in responding risks</td>
<td>1.69 (0.95)</td>
<td>2.66 (1.14)</td>
</tr>
<tr>
<td>Coordinating ERM activities</td>
<td>2.36 (1.07)</td>
<td>2.30 (1.43)</td>
</tr>
<tr>
<td>Consolidating the reporting on risks</td>
<td>2.27 (1.20)</td>
<td>2.39 (1.47)</td>
</tr>
<tr>
<td>Maintaining and developing the ERM framework</td>
<td>2.00 (1.07)</td>
<td>2.30 (1.50)</td>
</tr>
<tr>
<td>Championing establishment of ERM</td>
<td>3.33 (1.28)</td>
<td>2.94 (1.94)</td>
</tr>
<tr>
<td><strong>Panel C: Roles Internal Auditing Should Not Undertake</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Setting the risk appetite</td>
<td>1.28 (0.70)</td>
<td>1.62 (0.94)</td>
</tr>
<tr>
<td>Imposing risk management process</td>
<td>1.41 (0.73)</td>
<td>1.97 (1.13)</td>
</tr>
<tr>
<td>Management assurance on risks</td>
<td>1.83 (1.15)</td>
<td>3.04 (1.33)</td>
</tr>
<tr>
<td>Taking decisions on risk responses</td>
<td>1.36 (0.72)</td>
<td>1.89 (1.05)</td>
</tr>
<tr>
<td>Implementing risk responses on management’s behalf</td>
<td>1.44 (0.606)</td>
<td>1.39 (0.73)</td>
</tr>
<tr>
<td>Accountability for risk management</td>
<td>1.28 (0.57)</td>
<td>1.81 (1.08)</td>
</tr>
</tbody>
</table>

*Table IV – The current roles of the present study as well as de Zwaan et al. (2011) study. The scales ranged from 1 to 5 where: 1=No responsibility, 2=Limited responsibility, 3=Moderate responsibility, 4=Substantial responsibility, and 5=Total responsibility*

### 4.3 Manipulation checks and tests for confounding variables

Manipulation checks were performed for both the independent variables in order to make sure that the respondents reacted well to the manipulations in the experiment. The results are presented in Panel A in Table V. The first manipulation check was made in order to see whether or not the manipulation of the internal auditors’ involvement in ERM was successful, which involved two questions. This first question was meant to measure the chief internal auditor’s influence on the risk officer’s decision, while the second question measured the chief internal auditor’s involvement in ERM. As it was mentioned earlier, both questions used a nine-point scale that represented possible influence from very low level (1) to very high level (9). Thus, in order to have a successful manipulation, the respondents who received the high ERM involvement version of the
questionnaire were expected to score higher than those who received a low ERM involvement version. The means obtained from the results as well as the p-value of 0.000 and 0.006 respectively (U-value of 49.00 and 70.00) leads to a conclusion that the manipulation was successful due to a high statistical significance. Further, the Z-value of -3.475 and -2.804 of the Mann-Whitney test shows that the large values in the present study are likely to occur by chance with a probability of 0.0003 and 0.0026 respectively.

Table V - Manipulation check

<table>
<thead>
<tr>
<th>Panel A – Involvement in ERM</th>
<th>High</th>
<th>Low</th>
<th>U</th>
<th>Z</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean (s.d.)</td>
<td>Mean (s.d.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>n=22</td>
<td>n=14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chief internal auditor’s influence on risk officer’s decisions</td>
<td>4.79 (2.486)</td>
<td>5.27 (2.763)</td>
<td>49.00</td>
<td>-3.475</td>
<td>0.000</td>
</tr>
<tr>
<td>Chief internal auditor’s involvement in ERM</td>
<td>6.14 (1.099)</td>
<td>7.32 (1.041)</td>
<td>70.00</td>
<td>-2.804</td>
<td>0.006</td>
</tr>
</tbody>
</table>

Panel B –Senior Management

<table>
<thead>
<tr>
<th></th>
<th>Stronger n=20</th>
<th>Weaker n=16</th>
<th>U</th>
<th>Z</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean (s.d.)</td>
<td>Mean (s.d.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strength of the senior management</td>
<td>5.95 (1.905)</td>
<td>4.94 (0.998)</td>
<td>90.50</td>
<td>-2.274</td>
<td>0.026</td>
</tr>
<tr>
<td>Oversight ability of the senior management</td>
<td>6.95 (0.462)</td>
<td>2.75 (0.144)</td>
<td>19.50</td>
<td>-4.567</td>
<td>0.000</td>
</tr>
<tr>
<td>Likelihood the senior management would detect the breakdown</td>
<td>4.15 (2.231)</td>
<td>4.00 (1.095)</td>
<td>158.00</td>
<td>-0.650</td>
<td>0.962</td>
</tr>
</tbody>
</table>

Table V - Shows the different questions which were used to conduct the manipulation check with the result of the Mann-Whitney U test

The second manipulation check was conducted to measure if the manipulation of senior management was successful, in which two questions were asked. The respondents were asked to rate the strength of senior management and its oversight ability using the same nine-point scale. Similarly to Panel A, the authors of the present study expected to get a higher mean value for both questions from the group that received the strong senior management scenario. The results are presented in Panel B in Table V. Both groups with the strong senior management scenario had
higher means and obtained high significant results, with the oversight ability of senior management obtaining a $p$-value of 0.000 ($U=19.59$; $Z=-4.567$) while the strength of the senior management obtained a $p$-value of 0.026 ($U=90.50$; $Z=-4.567$). This means that the manipulation in regards to this variable was successful.

An additional question was asked to the stronger and weaker senior management groups in order to test if there was any difference in the perceived likelihood that senior management would detect the breakdown in risk procedures. The same nine-point scale was used. The data showed that there were no significant difference ($p=0.962; U=158.00; Z=-0.650$) in the mean responses between the two groups with the means being low (4.15 and 4.00 for the stronger and weaker senior management respectively), which means that the respondents perceived that senior management would be unlikely to detect the breakdown in risk procedures. A $Z$-value equal to -0.650 indicates that values as large as in the present study are likely to occur with a probability of 0.1711.

### 4.4 The likelihood of disclosure to the audit committee

The present study’s first hypothesis (H1) proposes that the internal auditors’ willingness to report a breakdown in risk procedures to the audit committee will be lower when the internal auditors have a high level of involvement in ERM compared to when they have a low level of involvement in ERM. In Table VI Panel A, descriptive statistics show the relation between the involvement in ERM and senior management. The descriptive statistics indicate that some of the mean responses are in direction with the present study’s hypothesis (H1). The most noticeable difference between the groups are between the overall low ERM involvement group (7.00) and the overall high ERM involvement group, showing that a lower level of ERM involvement lowers the likelihood of reporting a breakdown (Panel A). This is similar to de Zwaan et al. (2011) who had a mean score of 7.19 for the high ERM involvement group and 5.17 for the low involvement group. The Mann-Whitney test presents an $U$-value of 100.00, which results in a $p$-value of 0.83 (Panel B). Therefore, when a significance level of 0.05 is applied, this result is not significant and H1 is rejected. However, if a significance level of 0.10 is applied, the result can be considered significant and H1 is not rejected. Worth mention is that because such a high significant level is applied the results must be interpreted with caution, meaning that the results may not be as generalizable as if the significance level was higher.
Table VI - The likelihood of disclose to the audit committee

<table>
<thead>
<tr>
<th>Panel A: Means (Std. Deviations) and Cell Sizes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1: Low involvement in ERM/Stronger Senior Management relationship (SMR)</td>
</tr>
<tr>
<td>Group 2: High ERM/Low SMR  Group 3: Low ERM/Low SMR  Group 4: High ERM/Low SMR</td>
</tr>
<tr>
<td>High involvement in ERM</td>
</tr>
<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td>Stronger Senior Management relationship</td>
</tr>
<tr>
<td>Weaker Senior Management relationship</td>
</tr>
<tr>
<td>Overall</td>
</tr>
</tbody>
</table>

Panel B: Mann-Whitney U test

| Internal audit’s willingness to report a breakdown in risk procedures |
|---------------------------|---------------------------|
| N  | U  | Z  | P  |
| High involvement in ERM | 22 | 100.00 | -1.783 | .083 |
| Low Involvement in ERM  | 14 | 130.50 | -.956 | .352 |

The results from hypothesis (H1) are in line with the authors’ of the present study expectations as well as with de Zwaan et al. (2011) and other researchers (Sarens & De Beelde, 2006a; Fraser & Henry, 2007). This result can also be compared to the ones presented in chapter 4.2, where the IIA’s (2011a) ERM-core roles associated with assurance seemed to be more important among the respondents. Therefore, the respondents seemed to have preferred assurance services while not preferring to engage in the consulting services within ERM as well. Further, this could indicate that a high involvement in ERM-related activities could endanger internal audit’s independence and objectivity.
The second proposed hypothesis (H2) proposes that the perceptions of internal auditors’ willingness to report a breakdown in risk procedures to the audit committee will be higher when there is a weak internal audit-senior management relationship compared to when the relationship is stronger. The difference between the overall stronger senior management relationship (6.45) and the overall weaker senior management relationship (5.88) is very similar, resulting in a very small difference between the two groups (Panel A), which is not in line with the authors’ of the present study expectations. However, the lowest mean occurs when ERM involvement is high and when the senior management relationship is weak, which is contrary to the authors’ of the present study expectations. Worth mentioning is that when both a weak senior management relationship and a strong senior management relationship has a high ERM involvement, the difference is minimal. Furthermore, the Mann-Whitney showed an $U$-value of 130.50 and a $Z$-value of -.956, resulting in a $p$-value of 3.52 (Panel B). There is therefore no significant difference and H2 is rejected.

Even though the theoretical framework did in fact mention that a strong senior management could influence the internal auditor, the research within this area is still considered limited (Sarens & De Beelde, 2006b). It could be that because there were no clear characteristics on what defined a strong relationship between internal audit and senior management, which affected the creation of our concept regarding the relationship between senior management and internal audit. Further, some characteristics might be considered positive while others might be considered negative, which would in turn not give a unified description of what a strong relationship between internal audit and senior management is. The present study might also have adopted an expectation that was not aligned with the empirical reality of internal audit, namely that a strong relationship is to be considered something negative and not something positive. Furthermore, the difference between a strong and a weak relationship between senior management and internal audit might not have been clear enough with the characteristics that were chosen. Interestingly, de Zwaan et al. (2011) did not find any connection between internal audit’s strong relationship with the audit committee and internal audit’s willingness to report a breakdown. This could mean that neither senior management nor the audit committee have any influence on internal audit’s willingness to report a breakdown.
V CONCLUDING REMARKS

The final chapter presents the conclusions drawn from the analysis (5.1), discusses the research limitations of the present study (5.2) and provides suggestions for future research (5.3).

5.1 Conclusions

The present study’s primary research question examined how internal auditors’ objectivity and independence are influenced by closer internal audit involvement in ERM-related activities and a strong relationship with senior management. The objectivity and independence were in turn measured in the same way as the internal auditors’ willingness to report a breakdown, which resulted in a secondary research question. Our first proposed hypothesis (H1) predicted that internal auditors would be less willing to report a breakdown in risk procedures when the involvement in ERM-related activities was high. This hypothesis was supported by the present study’s analysis, but only when the significance level was lowered \((p=0.083)\). However, the study’s results also showed that the respondents did not think that a high involvement in ERM-related activities was suitable for them, only finding core roles given by the IIA (2012) suitable. Further, the roles that could be carried out with safeguards and those who are not recommended by the IIA (2012) were not seen as suitable. This supports the assumption that perceived internal audit independence and objectivity could be jeopardized when engaging in non-recommended roles (Sarens & De Beelde, 2006a; Fraser & Henry, 2007; Goodwin & Yeo, 2001). This could in turn be connected to internal auditors’ dual role of both being an assurance-provider as well as a consultant, where a focus towards the core roles given by the IIA (2011) could mean a further focus on assurance activities (Fadzil et al., 2005; Van Perseum, 2004).

The second hypothesis (H2) predicted that internal auditors would be more willing to report to the audit committee when their relationship with senior management is weak compared to when the relationship is stronger. No support was found and the hypothesis was rejected. This could be explained due to the fact that the research is limited (Sarens & De Beelde, 2006b) and the fact that some characteristics involve both a negative and positive relationship which in turn could have affected the construction of the definition of a strong relationship between senior management and internal audit. Therefore, the expectation that a strong relationship between internal audit and senior management could influence independence and objectivity might not be correct.
5.2 Research limitations

When interpreting the results of the present study, certain limitations have been taken into account. First of all, the present study is conducted in a Swedish setting with respondents working in Swedish firms. Therefore, due to regulatory differences and cultural differences, these results should be interpreted with care. Furthermore, the study consisted of a small sample, which means that even though some relations were statistically significant; they should only be generalised with caution. However, as the understanding for this limitation developed during the conduct of the present study, the authors of the present study made various attempts to increase the amount of data gathered by requesting the IIA to remind the respondents to complete the questionnaire.

A methodological limitation that also limits the present study’s generalizability is the experimental design that was used. Due to the fact that the experiment measured the respondents’ perception of internal auditors’ objectivity and independence and not actual internal audit objectivity and independence, it could have an effect on the results as well as the generalizability. Finally, the fact that only internal auditors who were members of the IIA Sweden were a part of the present study could lead to problems regarding generalizability.

5.3 Suggestions for future research

The authors of the present study see potential in conducting an identical study using a qualitative approach instead of a quantitative. One suggestion is to conduct semi-structured interviews within the same topic and ask the same questions that were asked in the present study. This could in turn increase the understanding of why internal auditors see the core roles given by the IIA (2011) as more important than the other roles. Further, a deeper methodological approach is needed in order to further understand how internal audit objectivity and independence respectively are influenced by internal audit’s involvement in Enterprise Risk Management-related activities, rather than analysing both simultaneously. Another suggestion is to conduct a combination of a quantitative and qualitative study in order to more exactly find out about the reasoning behind the respondents’ answers in the quantitative part. This combination has a potential to result in material that could be more suitable for making deeper explanations and interpretations of the respondents’ answers. Two different respondents could, for example, have answered the same quantitative question exactly the same but the reasoning behind their answers could have been different. Thus, the interviews would examine similar or different patterns of thinking among the respondents,
investigating a critical and interesting part of the research area. Finally, research regarding senior management should not be oriented towards independence and objectivity. Rather, areas such as effectivity should be investigated.
REFERENCES


Institute of Internal Auditors (IIA) (2002), *Practice Advisory 2060–2: Relationship with the Audit Committee*, Altamonte Springs, FL: The Institute of Internal Auditors.


APPENDIX I

I. BACKGROUND OF PARTICIPANTS
1. Please identify your age: ________
2. How long have you been working in your current organization? _____
3. How long have you been working as an internal auditor?_____
4. For how long have you been a member of Internrevisorerna?
5. Do you have any prior management experience? If yes, please identify how many years of
management experience do you have.
   ● Yes, ( ) years
   ● No
6. Please identify the sector you are currently employed in.
   ● Private sector
   ● Public sector
7. Please identify the status of Enterprise risk management (ERM) in your current organisation:
   ● The organisation has not considered ERM
   ● The organisation is currently considering the relevance of ERM for enterprise
   ● The organisation has recently adopted ERM, but implementation is not fully complete
   ● The organisation has recently adopted ERM, and implementation is relatively mature
   ● The organisation adopted ERM several years ago, and infrastructure is mature
   ● The organisation has rejected ERM
   ● Other

II. INTERNAL AUDIT INVOLVEMENT IN ERM

Please identify the extent of the internal auditor’s involvement in the following areas:

Giving assurance on risk management process (1-5)
Giving assurance that risks are correctly evaluated (1-5)
Evaluating risk management process (1-5)
Evaluating the reporting of risks (1-5)
Reviewing the management of key risks (1-5)
Facilitating identification and evaluation of risks (1-5)
Coaching management in responding to risks (1-5)
Coordinating ERM activities (1-5)
Consolidating the reporting on risks (1-5)
Maintaining and developing the ERM framework (1-5)
Championing establishment of ERM (1-5)
Developing risk management strategy for board approval (1-5)
Setting the risk appetite (1-5)
Imposing risk management process (1-5)
Management assurance on risks (1-5)
Taking decisions on risk responses (1-5)
Implementing risk responses on management’s behalf (1-5)
Accountability for risk management (1-5)

III. CASE SCENARIO
Omega AB is a large-sized Swedish company, which has been listed for several years. Omega’s profitability shows moderate growth in the last 2 years. The industry which Omega operates within exhibits medium risk in that it is mostly affected by overall economic conditions. The board of Omega is comprised of a majority of independent, non-executive directors and the Chairman is independent. Board meetings are held regularly throughout the year (average of 8 times). All the directors have held outside directorships and they have an average of 10 years’ experience as directors. The external auditors of Omega are from a top-tier firm. The firm has provided audit services for 5 years, and it does not provide any non-audit services to Omega.

Stronger senior management characteristics and relationship with internal audit
Omega’s senior management is comprised of independent managers, with solid experience within their specific sector. Senior management meets with the internal auditor at least six times throughout the year, sets aside private time to speak to the Chief Internal Auditor and pays close attention to the matters raised in the internal audit report. It is also actively involved in important issues of internal audit, such as new appointments, dismissal, compensations, and is also involved in the internal auditors’ day-to-day activities. Senior management often lets prospective managers start in the internal audit department in order to let them gain the necessary experience. Senior management sees the monitoring of internal audit as a priority and therefore shares this task with the audit committee.

Weaker senior management characteristics and relationship with internal audit
Omega’s senior management is mostly comprised of independent managers, with the necessary experience related to the financial and industry sector. Senior management sometimes meets with the internal audit department and holds a private meeting with the Chief Internal Auditor twice a year. Senior management consider reports from the internal audit department, but leaves it to the Chief Internal Auditor to follow up on the recommendations reflected in the report. Internal audit is responsible for its own appointments and dismissal, with minimal involvement of senior management. Senior management does not see the internal audit department as a resource to train future managers. Senior management sees the monitoring role of the audit committee as a vital part of the internal audit structure.

About 2 years ago, Omega’s board of directors resolved to implement an Enterprise-wide Risk Management (ERM) system. This involves a whole of organisation approach to the identification, assessment and monitoring of its risks. The oversight of the ERM system is a key responsibility of the audit committee.
Johan Johansson is the Chief Internal Auditor who reports functionally to the audit committee and administratively to the General Manager (CEO). He is a professionally qualified internal auditor with 4 years prior managerial experience. He joined Omega 5 years ago as the Chief Internal Auditor. The internal audit department comprises of 10 staff that all possess basic internal audit qualifications and training. Further, the internal audit department undertakes regular review and assurance of the management of key risks.

**High involvement in ERM**

Johan has been a champion of the establishment of ERM and was instrumental in developing the overall risk management strategy for board approval. While Daniel Ericsson was hired 18 months ago as the Risk Officer to oversee the implementation of the ERM system, Johan continues to direct many of the ERM related activities. Daniel has a direct reporting line to the General Manager, but tends to work closely with Johan. Most of the workshops on risk identification and assessment are still run by Johan, and he is a popular coach for helping managers identify and respond to risks. Further, Daniel often seeks Johan’s help in setting up risk identification mechanisms, risk prioritisation guidelines and evaluation processes.

**Low involvement in ERM**

“Presently, there is a separate risk management function within the organisation. Daniel Ericsson has been hired as the Chief Risk Manager to oversee the implementation of the ERM system and has three other staff supporting him. He reports directly to the General Manager and often liaises with Johan who, as the Chief Internal Auditor, undertakes regular evaluations and reports on the risks identified and the management of such risks. Where appropriate, Daniel will refer to the internal audit’s evaluation report on risk management. However, the General Manager and Daniel make the final decisions on the selection of all risk procedures and the implementation of all ERM processes.”

During the current year’s internal audit review, Jan Persson, a member of the internal audit staff, discovered a breakdown as a result of the choice of risk procedures adopted. This breakdown is of serious nature and has significant long-term ramifications for the firm. As such, there will be a need to issue a special report presented by Johan as the Chief Internal Auditor to the audit committee. It is likely that the audit committee will be much concerned, and the individuals responsible for the risk procedures will be called to hold account for the matter, which may subsequently affect the annual performance assessment of the persons involved. The alternate possibility is that Johan may decide not to prepare the special report for the audit committee, but submit the internal audit report and quietly rectify the risk procedures.
Please answer the below questions 1-7 in relation to the above scenario by circling your response. [9 point scale used from highly unlikely to highly likely.]

1. What do you think would be the likelihood that Johan will prepare the special report and disclose the matter to the audit committee? –
2. What do you think would be the likelihood that senior management will detect the breakdown in risk procedures without Johan’s special report? -
   [9 point scale used from very weak to very strong.]
3. Please indicate your perception of the strength of Omega’s:
   a. Board of Directors
   b. Senior Management
4. How would you rate the involvement of Omega’s senior management in the internal audit function? [9 point scale from Very Poor to Excellent]
5. To what extent do you believe Johan has influenced Daniel in his decisions?
   [9 point scale from Very low influence to very high influence]
6. To what extent do you believe Johan has been involved in Omega’s ERM?
   [9 point scale from Very low involvement to very high involvement]
7. To what extent do you believe that Johan’s involvement in Omega’s ERM would negatively affect his professional judgement? [9 point scale from very low effect to very high effect.]