Exploration of 
a theory 
of internal audit

A study on the theoretical foundations of internal audit in relation to the nature and the control systems of Dutch public listed firms

W.H.A. Swinkels

Eburon Delft
2012
Table of contents

Preface

1. Introduction 11
   1.1 Setting the scene 11
   1.2 The position and role of Internal Audit 13
   1.3 A Framework for control 16
   1.4 Object of research 19
   1.5 Research questions and aim 20
   1.6 Research setting 22
   1.7 Research method 23

2. Origins of and developments in internal audit 25
   2.1 Introduction 25
   2.2 Historical roots of Internal Audit (until 1930’s) 27
   2.3 Roots and Developments of Internal Audit in the Netherlands 29
      2.3.1 Role of internal audit 31
      2.3.2 Professional Practices and Competency Framework 33
      2.3.3 Position papers 35
      2.3.4 Relationship with stakeholders 38
      2.3.5 Study report Common Body of Knowledge (CBOK) 40
   2.4 Research by the Institute of Internal Audit (1941-2010) 42
   2.5 Regulations Influencing Internal Audit 48
      2.5.1 Foreign Corrupt Practices Act 49
      2.5.2 Treadway Commission 50
      2.5.3 Sarbanes-Oxley Act 51
      2.5.4 Listing standards of the NYSE 52
      2.5.5 U.K. Combined Code 52
      2.5.6 Basel Committee and Solvency 53
   2.6 Academic Research on Existence and Scope of Internal Audit 54
      2.6.1 Internal audit existence 56
      2.6.2 Scope of Services 58
      2.6.3 Relation internal and external audit 61
      2.6.4 Outsourcing internal audit 62
      2.6.5 Relation with Audit Committee and Management 64
   2.7 Concluding remarks 67
6. **Assessing the current state of Dutch internal audit**  
6.1 Introduction  
6.2 Theoretical framework  
6.3 Methodology of research  
6.4 Results  
   6.4.1 Focus on maintenance versus adaptation and reprogramming  
   6.4.2 Breadth of focus on control elements  
   6.4.3 Analysis of differences between firms  
6.5 Summary and concluding remarks

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1 Introduction</td>
<td>161</td>
</tr>
<tr>
<td>6.2 Theoretical framework</td>
<td>163</td>
</tr>
<tr>
<td>6.3 Methodology of research</td>
<td>166</td>
</tr>
<tr>
<td>6.4 Results</td>
<td>168</td>
</tr>
<tr>
<td>6.4.1 Focus on maintenance versus adaptation and reprogramming</td>
<td>168</td>
</tr>
<tr>
<td>6.4.2 Breadth of focus on control elements</td>
<td>170</td>
</tr>
<tr>
<td>6.4.3 Analysis of differences between firms</td>
<td>178</td>
</tr>
<tr>
<td>6.5 Summary and concluding remarks</td>
<td>185</td>
</tr>
</tbody>
</table>

7. **Summary and Conclusions**  
7.1 Introduction  
7.2 Summary of findings and their implications  
7.3 Implications of the findings of this study  
7.4 Limitations of this research  
7.5 Directions for future research

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1 Introduction</td>
<td>189</td>
</tr>
<tr>
<td>7.2 Summary of findings and their implications</td>
<td>190</td>
</tr>
<tr>
<td>7.3 Implications of the findings of this study</td>
<td>194</td>
</tr>
<tr>
<td>7.4 Limitations of this research</td>
<td>196</td>
</tr>
<tr>
<td>7.5 Directions for future research</td>
<td>198</td>
</tr>
</tbody>
</table>

**Appendix I: Samenvatting**  
**Appendix II: Overview on internal audit literature in academic magazines**  
**Appendix III: Predictability of the existence of internal audit via logistic regression**  
**Appendix IV: Invitation to participate in Phd**  
**Appendix V: Questionnaire for Chief Audit Executive**  
**Appendix VI: List of interviewed firms and persons**  
**Literature**