

Internal Audit's Involvement in Environmental, Social and Governance Assurance and Consulting

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requirements for the degree of Doctor of Philosophy in the Faculty of
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Declaration

I certify that:

- The work presented in this thesis is original and has not been submitted for a higher degree to any other university or institution.
- The sources of information used, and the extent to which the work of others has been utilised, are acknowledged in the thesis.
- Ethics Committee approval has been obtained for the research presented in this thesis (Reference number: 5201100852(D)).

The following summarises my particular contribution to each of the joint-authored papers in this thesis:

Paper 1: Soh, D. S. B. and N. Martinov-Bennie (2015). "Internal auditors' perceptions of their role in environmental, social and governance assurance and consulting." *Managerial Auditing Journal* 30(1): 80-111: Conception: 85%; Writing: 85%

Paper 2: Soh, D. S. B. and N. Martinov-Bennie. "Factors associated with internal audit's involvement in environmental and social assurance and consulting.": Conception: 85%; Writing: 85%

Paper 3: Soh, D. S. B. and N. Martinov-Bennie. "The dynamics of internal audit's involvement in environmental, social and governance assurance and consulting.": Conception: 85%; Writing: 85%

The specific contribution of the joint author of each paper, Professor Nonna Martinov-Bennie, includes discussion of the conceptual ideas underpinning the paper, and reviewing and editing paper drafts.

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Dedication

To my parents,

for always believing that I knew what I was doing ...

your faith in me gave me faith in myself.

Summary of thesis

This thesis by publication examines the provision of assurance and consulting over environmental, social and governance (ESG) areas by internal auditors in the Australian context. The thesis consists of three papers based on a sequential mixed methods design comprising a survey in Stage 1 and semi-structured interviews in Stage 2 of the thesis, both conducted with internal auditors. The thesis aims to further our understanding of the nature and dynamics of internal audit's involvement in ESG areas by investigating three key objectives.

- **What** is the nature of internal audit's involvement in ESG areas?
- **Why** is internal audit involved in ESG areas?
- **How** does internal audit facilitate its expansion and embed itself into emerging ESG areas?

The first paper provides the context for the study by investigating the current state of play with respect to internal audit's involvement in ESG areas. It examines internal auditors' perceptions of the current and future importance of these issues to internal audit and the adequacy of their skills and expertise in meeting the challenges associated with their involvement in these areas. Using data from a survey of chief audit executives and service provider partners of internal audit services, the study found that respondent internal audit functions were involved in providing assurance and consulting on a diverse array of ESG issues, with greater involvement in assurance services relative to consulting services. While internal audit predominantly focused on governance issues, Paper 1 reports that environmental issues were generally expected to increase in importance in coming years, with a corresponding need for internal auditors' skills in environmental areas in greatest need of further development.

The second and third papers address the question of why internal audit is involved in ESG areas. Paper 2 examines factors associated with the extent of internal audit's involvement in environmental and social issues using data collected from the survey in the first stage of the thesis. The findings indicate that management support for internal audit's involvement in ESG activities is the key factor associated with the extent of the internal audit function's involvement in assurance and consulting over these areas. In addition, internal audit functions in organisations operating in sensitive industries, and with higher levels of external ESG reporting, were found to be associated with greater involvement in assurance over environmental and social issues. Interviews conducted in the second stage of the study and reported in Paper 3 reveal that changes in the regulatory environment, as well as related increase of the board and management awareness and sensitivities to the importance of managing risks associated with emerging ESG areas, is also an important driving factor.

Paper 3 examines the dynamics of internal audit's involvement in ESG areas, focusing on how internal audit facilitates its expansion and embeds itself into emerging ESG areas. The study finds that support needs to be obtained at the board and management levels, and that internal auditors employ a range of strategies to obtain this support, including mobilising the rhetoric of regulation and reputation, (different types of) expertise (through various means), transparency and consultation, and the consulting role of the internal audit function.

Collectively, the thesis contributes to the extant internal auditing and sustainability assurance literature and highlights the diverse nature of internal auditing in practice, as well as the capacity for internal auditors to drive integrated thinking and assurance over emerging ESG risks. The findings also have practical implications for internal auditors, other assurance providers, professional bodies and regulators.

List of abbreviations and acronyms

| | |
|--------|---|
| ACCA | Association of Chartered Certified Accountants |
| AFAANZ | Accounting and Finance Association of Australia and New Zealand |
| ANZSIC | Australian and New Zealand Standard Industrial Classification |
| APRA | Australian Prudential Regulatory Authority |
| ASX | Australian Securities Exchange |
| AUASB | Auditing and Assurance Standards Board |
| CA | Chartered Accountant |
| CAE | Chief Audit Executive |
| CBOK | Common Body of Knowledge |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CGC | Corporate Governance Council |
| CIIA | Chartered Institute of Internal Auditors |
| CPA | Certified Practising Accountant |
| CSR | Corporate Social Responsibility |
| ESG | Environmental, social and governance |
| EU | European Union |
| EY | Ernst & Young |
| FCPA | Foreign Corrupt Practices Act of 1977 |
| FTE | Full-time equivalent |
| GHG | Greenhouse gas |
| GLM | Generalised linear model |
| GRI | Global Reporting Initiative |
| HR | Human resources |
| HSE | Health, safety and environment |
| IAF | Internal audit function |
| IAASB | International Auditing and Assurance Standards Board |
| ICAA | Institute of Chartered Accountants in Australia |
| ICAS | Institute of Chartered Accountants of Scotland |
| IIA | Institute of Internal Auditors |

| | |
|--------|--|
| IIRC | International Integrated Reporting Council |
| IRC | Integrated Reporting Committee of South Africa |
| IoDSA | Institute of Directors in Southern Africa |
| IPPF | International Professional Practices Framework |
| IR | Integrated reporting |
| ISPPIA | International Standards for the Professional Practice of Internal Auditing |
| MBA | Master of Business Administration |
| OCEG | Open Compliance and Ethics Group |
| OH&S | Occupational health and safety |
| OLS | Ordinary least squares |
| PRI | Principles for Responsible Investing |
| PwC | PricewaterhouseCoopers |
| SME | Subject matter expert |
| VIF | Variance inflation factors |

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Chapter 1

Introduction

1.1 Background and context

Growing accountability pressures exerted on organisations by various stakeholders in the aftermath of major corporate collapses and the global financial crisis brought about by excessive risk-taking (Davies, Moxey & Welch 2010) have led to significant developments in corporate reporting and governance practices in the past two decades, including extended reporting on wider environmental, social and governance (ESG) performance (Simnett, Vanstraelen & Chua 2009b).¹ While much of this reporting was initially undertaken by organisations on a voluntary basis, there is a more recent trend for this extended reporting to be mandatory. For example, the European Union Directive 2014/95/EU requires large companies from 2018 to provide information on their policies, risks and outcomes in relation to non-financial and diversity areas (European Commission 2014a). The establishment of the International Integrated Reporting Council (IIRC) in August 2010 as a forum for international leaders to advocate for the development of a universally accepted reporting framework for integrating financial information with ESG information has also been a significant development in this space. Collectively, these developments have seen the assurance of this ESG reporting receive growing attention in recent years (Simnett et al. 2009b; Moroney, Windsor & Aw 2012; Cohen & Simnett 2015; KPMG 2015).

Concurrent to the changing corporate reporting landscape, the practice of internal auditing has been expanding and evolving (Spira & Page 2003; Gramling, Maletta, Schneider & Church 2004; Carcello, Hermanson & Raghunandan 2005b; Soh & Martinov-Bennie 2011). The internal audit function (IAF), which has traditionally been involved in assurance over financial matters as an “adjunct to the statutory auditing process”, has seen an increasing shift of its focus to non-financial areas and corporate governance with recognition of the IAF as an expert on risk (Power 2007, p.56) with unique access across the organisation (Gramling et al. 2004). In the Australian context, the IAF’s role in governance and risk management was given greater prominence in the most recent revision of the Australian Securities Exchange Corporate Governance Council’s Principles and Recommendations in 2014, with Recommendation 7.3 now requiring listed organisations to disclose the existence, structure and roles of the IAF, or in the absence of an IAF, the processes used to evaluate and improve internal control and risk management effectiveness (ASX CGC 2014).

Within this context of the shifting nature of corporate reporting, governance and internal auditing, this thesis sets out to investigate the nature and extent of internal audit’s involvement in undertaking assurance and consulting over ESG information. The thesis additionally aims to

¹ ‘ESG’ is used in this thesis as an overarching term encompassing a broad range of non-financial, sustainability matters in environmental, social or governance areas. Unless specified in individual papers, the term is used interchangeably with ‘non-financial areas/matters/information’, ‘sustainability areas/matters/information/issues’ and ‘corporate social responsibility (CSR)’ in this thesis.

understand the driving factors for internal auditors' involvement in these areas, and how internal audit embeds itself and facilitates its expansion into areas outside its traditional domain.

This thesis by publication consists of three distinct but interrelated papers on the above issues. This Chapter provides the motivation for the thesis and its contributions in Section 1.2, an overview of the relevant literature and the research design of the thesis in Sections 1.3 and 1.4 respectively, and concludes with an outline of the structure of the thesis and its individual papers in the final section.

1.2 Motivation and contribution

The significant increase in attention paid to corporate disclosures of ESG information in recent years has seen commensurate increase in demand for assurance to add credibility to this information for both external and internal audiences (Martinov-Bennie, Frost & Soh 2012; Cohen & Simnett 2015). ESG issues are now essential to considerations of operational, strategic and corporate governance practices (Ballou, Casey, Grenier & Heitger 2012), and are recognised as being integral to long-term business success, with assurance services having the potential to add value to ESG management and reporting systems by driving internal organisational change and improvement (Mock, Strohmer & Swartz 2007; GRI 2013a).

Research into ESG assurance to date is relatively nascent (Cohen & Simnett 2015) and largely confined to external providers. While the professional literature and guidance has pointed to the need for internal audit to be involved in ESG assurance and consulting (Nieuwlands 2007; Deloitte 2011; IIA 2013c), there has been a paucity of academic literature investigating the provision of internal assurance and consulting on ESG information beyond acknowledging that IAFs undertake such engagements, including environmental audits (e.g. Paape, Scheffe & Snoep 2003). While there is emerging evidence of internal audit providing assurance on ESG information in recent years (Darnall, Seol & Sarkis 2009; Jones & Solomon 2010; Peters & Romi 2015; Trotman & Trotman 2015; Ramamoorti & Siegfried 2016), there is limited understanding of the extent of their involvement in these areas (in terms of activities undertaken over various ESG issues), as well as why and how internal audit becomes involved in these areas. By investigating the nature of internal audit activity (assurance versus consulting) over a comprehensive range of ESG information, this thesis extends our understanding of internal audit's involvement in these areas and provides a platform upon which future research may leverage and build.

More specifically, this exploratory research aims to address the gap in the extant research by examining the nature and extent of internal audit's involvement in ESG areas and the factors associated with this involvement. In so doing, the thesis responds to calls for more comprehensive investigations and descriptions of the type and extent of work the IAF undertakes (Carey, Simnett & Tanewski 2000) in risk management (Spira & Page 2003; Goodwin-Stewart & Kent 2006), greater attention to various types of assurance mechanisms in ESG areas (Darnall et al. 2009), and

specifically internal audit's involvement in these areas (Ridley, D'Silva & Szombathelyi 2011). The thesis also investigates how internal audit facilitates its expansion into these new areas and embeds itself into emerging ESG areas, thus complementing and extending the external assurance provider perspective research (O'Dwyer, Owen & Unerman 2011). As ESG areas become increasingly important to organisations and their boards (Kend 2015; Martinov-Bennie, Soh & Tweedie 2015; Peters & Romi 2015; Trotman & Trotman 2015), it is timely to undertake in-depth investigation into these issues.

By collecting primary data through a survey and interviews with internal auditors, this thesis aims to add depth to prior studies that have tended to rely on publicly available information, such as organisations' sustainability reports. Not all organisations that engage sustainability assurance services publish stand-alone sustainability reports or otherwise publicly disclose details of the nature of assurance obtained on sustainability information (Ballou et al. 2012). There is also arguably limited incentive to disclose internal audit's involvement in ESG areas. This thesis is thus able to undertake a more nuanced investigation into internal audit's role in practice, particularly as the emphasis on the consulting aspect of the function's role grows (Sarens & De Beelde 2006a, 2006b; Stewart & Subramaniam 2010; Soh & Martinov-Bennie 2011; Anderson 2016) and the importance of considering internal organisational factors in addition to institutional and firm level factors reported in the extant literature is increasingly recognised (Gramling et al. 2004; Arena & Azzone 2009; Cohen & Sayag 2010; Leung, Cooper & Perera 2011; Soh & Martinov-Bennie 2011; Sarens, Abdolmohammadi & Lenz 2012a; Lenz & Hahn 2015). Through this approach, this thesis responds to calls for research to investigate the back stage of assurance practice (Power 2003), to further understand the practical implementations of audit practices (Robson, Humphrey, Khalifa & Jones 2007) through fieldwork and greater engagement with practitioners (Power 2007).

The current developments in corporate reporting practices and regulation, such as integrated reporting (IR) and assurance, make this research timely as questions are raised about the quality and credibility of these practices (Mori Junior, Best & Cotter 2014; Cohen & Simnett 2015; KPMG 2015). The capacity for internal audit to undertake various roles across the implementation and production of IR has been noted (Deloitte 2011; IIA 2013c; IIRC 2014b; IIA 2015a; 2015b), and it has been suggested that internal audit will be the 'glue' (Druckman 2013) in promoting wider adoption of IR through "leveraging its 'seat at the table'" (IIA 2013e, p.2) to overcome the main challenges in embedding core IR concepts and principles within organisations (IIA 2015b).

By providing insights into, and improving understanding of, the processes by which internal audit may expand into providing assurance and consulting in 'new' areas in which they have not traditionally been involved, the thesis informs policy makers, internal and external assurance providers, governance actors and researchers. More specifically, the insights from this thesis are relevant to the development of combined assurance approaches aimed at improving the level of

comfort provided to various internal and external stakeholders through potentially greater collaboration between different types of assurance providers (Sarens, De Beelde & Everaert 2009; Sarens, Decaux & Lenz 2012b; Decaux & Sarens 2015; Huibers 2015; IoDSA 2016). This is particularly important given internal audit's influential role in diffusing assurance over ESG areas (O'Dwyer et al. 2011), calls for the role of internal audit to be strengthened or made more prominent in these areas (IIRC 2015), the preference of some internal stakeholders for assurance in these areas to be provided by internal audit rather than external assurance providers, and a desire to minimise duplication across assurance efforts (Jones & Solomon 2010; Soh & Martinov-Bennie 2011; Trotman & Trotman 2015).

Finally, the findings of the thesis enable practitioners to benchmark their activities against the reported results. The findings, particularly in relation to perceived relative future importance of issues and adequacy of IAF skills and competencies in addressing these emergent issues, provide useful input to professional bodies with internal auditor members such as the Institute of Internal Auditors (IIA) in developing their professional development and education offerings.

1.3 Literature overview

This thesis consists of three exploratory studies situated within the internal audit and sustainability assurance literature. This section provides an overview of the relevant literatures and an overall context for the thesis. Each paper provides a more focused discussion of the specific literature relevant to the research questions examined in the study. Figure 1.1 in Section 1.6 provides a visual representation of the structure of the thesis.

1.3.1 Internal auditing

Internal auditing is defined in the IIA's International Professional Practices Framework (IIA 2017) as:

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

The current definition was introduced in 1999. It revises the previous definition to reflect the evolving and expanding role of internal auditing from an appraisal activity predominantly in relation to controls, and to provide a broader direction for the profession to ensure its continued influence and relevance (Krogstad, Ridley & Rittenberg 1999; Ahlawat & Lowe 2004; Page & Spira 2004). While the revised definition points to a broad role for internal audit in risk management, control and governance, it is only in the last two decades that there has been increasing evidence of internal audit practice starting to shift from its predominantly monitoring

and compliance focus (particularly in financial areas) to a broader value-adding role in governance (Ramamoorti 2003; Spira & Page 2003; Sarens 2009; Arena & Jeppesen 2010; Arena & Sarens 2015).²

Part of the reason for the slow shift in focus for internal auditing, at least in the US context, was the introduction of the Sarbanes-Oxley Act in the US (in particular Section 404), which had implications for internal auditing in contributing to management's assessment of the effectiveness of internal controls over financial reporting (Gramling et al. 2004; Schneider 2008). Given this, as well as the IAF's traditionally financial focus, a substantial proportion of the extant research on internal auditing has been, and continues to be, devoted to the IAF's contribution to financial reporting quality and the external (financial) auditor's reliance on the function (Carey et al. 2000; Cohen, Krishnamoorthy & Wright 2004; Gramling et al. 2004; Davidson, Goodwin-Stewart & Kent 2005; Glover, Prawitt & Wood 2008; Prawitt, Smith & Wood 2009; Munro & Stewart 2010, 2011; Shu, Pizzini, Vargus & Bardhan 2011; Bame-Aldred, Brandon, Messier Jr, Rittenberg & Stefaniak 2013; Mazza & Azzali 2015; Pizzini, Shu & Ziegenfuss 2015). Other streams of internal auditing research examine the roles of the IAF and the effectiveness of the function in relation to both financial and non-financial matters. This thesis draws from these latter streams in developing the research questions and informing the inquiry undertaken in this study. The below provides an outline of this literature.

1.3.2 Adoption, characteristics and roles of the internal audit function

Following the revised, broader definition of internal auditing and regulatory reforms aimed at improving corporate governance, the IAF has experienced an elevated role in governance and risk management and received increasing attention in the professional and academic literature (Crawford & Stein 2002; Spira & Page 2003; Page & Spira 2004; Carcello, Hermanson & Raghunandan 2005a; IIA 2009a; Arena, Arnaboldi & Azzone 2010; Stewart & Subramaniam 2010; de Zwaan, Stewart & Subramaniam 2011; Cohen, Hayes, Krishnamoorthy, Monroe & Wright 2013).

In line with the greater emphasis on the IAF's role in governance, prior studies have reported that IAFs are being established in a growing number of organisations (Arena & Azzone 2007), with larger investments being made in the function (Carcello et al. 2005a). Studies that have examined the factors influencing the decision to establish an IAF in a voluntary setting report that these are generally associated with the size of the organisation and its commitment to strong risk management (Goodwin-Stewart & Kent 2006; Arena & Azzone 2007). Studies examining the investment in the IAF in terms of its budget or size find that these are associated with company size

² See Ramamoorti (2003) for a discussion on the history and evolution of the profession.

and industry and the characteristics of the audit committee and its involvement in resourcing decisions (Carcello et al. 2005a, 2005b).

Prior research has also examined the structure of the IAF and the decision to outsource versus keeping the function in-house. A recent study on co-sourcing/outsourcing of the IAF reports that for-profit organisations are more likely to have outsourced IAFs relative to not-for-profit or public sector entities (Abdolmohammadi 2013). Outsourcing of the IAF was also found to be positively associated with audit committee involvement in terms of its interaction with the Chief Audit Executive (CAE). A number of studies have investigated the impact of IAF sourcing on financial reporting quality, the external auditor's assessment and reliance on IAF decision (Bame-Aldred et al. 2013), the IAF's contribution to fraud detection (Coram, Ferguson & Moroney 2008), and the IAF's (perceived) effectiveness (Subramaniam, Ng & Carey 2004; Soh & Martinov-Bennie 2011). The findings of these studies indicate a general trend for outsourced (or co-sourced) IAFs to be perceived by external stakeholders as being relatively higher quality (Desai, Gerard & Tripathy 2011) and more independent and objective than fully in-house IAFs (Ahlawat & Lowe 2004; Glover et al. 2008; Bame-Aldred et al. 2013),³ while there is a preference for in-house internal auditors expressed by internal stakeholders (Soh & Martinov-Bennie 2011).

Studies have also examined other aspects of the IAF's composition and its practices/processes and their association with the function's roles and effectiveness (Lenz & Hahn 2015; Coetzee & Erasmus forthcoming). IAF characteristics that have been reported to be associated with higher quality IAFs include its independence and objectivity (D'Onza, Selim, Melville & Allegrini 2015), maturity (Sarens, Allegrini, D'Onza & Melville 2011), resourcing (budget, size, appropriate expertise and training) (Lenz, Sarens & D'Silva 2014) and competency and leadership of the CAE (Soh & Martinov-Bennie 2011). Practices that contribute to internal audit's activity and effectiveness in governance and risk management (other than its relationships, reporting lines and interactions with internal stakeholders) include the use of systematic and disciplined risk based audit plans and approaches (Coetzee & Lubbe 2014), implementation of a quality assurance and improvement program (Sarens et al. 2012a), compliance with the IIA's standards and Code of Ethics (Burnaby & Hass 2011; D'Onza et al. 2015), leveraging technology and providing ratings in relation to findings (Lenz et al. 2014).

Given the IAF's place within the overall corporate governance mosaic as a 'comfort provider' to the audit committee (Cohen et al. 2004; Sarens et al. 2009), the literature has also examined governance characteristics such as the composition and diligence of the audit committee, and management support for the IAF or risk management and its association with IAF roles and effectiveness (Mat Zain, Subramaniam & Stewart 2006). These have generally reported on the

³ There are other studies that report contrary results. For example, Munro and Stewart (2010) report that external auditors are insensitive to potential differences in objectivity of in-house versus outsourced IAFs and are more inclined to use in-house IAFs for substantive testing.

importance of appropriate reporting lines directly to the board and/or the audit committee, informal reporting/interactions of the IAF/CAE with the audit committee (chairperson) and senior management support in contributing to internal audit's role and effectiveness in meeting stakeholders' expectations (Goodwin 2003; Turley & Zaman 2004; Sarens & De Beelde 2006c; Fraser & Henry 2007; Turley & Zaman 2007; Nieuwlands, Bongers & Paape 2008; Arena & Azzone 2009; Sarens et al. 2009; Sarens et al. 2012a; Ghafran & O'Sullivan 2013; Sarens, Christopher & Zaman 2013; Zaman & Sarens 2013; D'Onza et al. 2015).

As internal audit's prominence as a governance mechanism increases with the trend for it to be mandated or strongly recommended across most stock exchanges internationally,⁴ the evolving role of the IAF has also received greater attention from researchers. This literature reports expanding, diverse (extent of) roles performed by internal audit in terms of governance and strategy reviews and risk management activities such as risk identification and assessment. The expanding role of the IAF has been largely attributed to corporate governance regulatory reforms, increasing awareness of the board and management of its risk management responsibilities and greater recognition of the role internal audit can undertake in providing assurance and consulting over these areas (Arena et al. 2010; Soh & Martinov-Bennie 2011; Martinov-Bennie et al. 2015). However, there is also some evidence of internal auditors making efforts to expand their remit into these areas to secure their positions and ongoing relevance within the organisation (Page & Spira 2004; Fraser & Henry 2007).

Recent internal audit research and professional literature indicates that the nature of internal auditing is evolving with increasing IAF involvement in consulting activities (Paape et al. 2003; Selim, Woodward & Allegrini 2009; Stewart & Subramaniam 2010; Sarens & Abdolmohammadi 2011) and shifting emphasis from financial to non-financial information such that a large proportion (79%) of internal audit work plan time is now devoted to non-financial areas (Protiviti & IIA-Australia 2011; Soh & Martinov-Bennie 2011). A recent large global survey of internal auditors also reported the expectation of participants that the key focus areas for internal audit in coming years will include corporate governance reviews and audits of enterprise risk management processes, ethics and social and sustainability issues (Allegrini, D'Onza, Melville, Sarens & Selim 2011).

1.3.3 Sustainability assurance

Organisations are increasingly providing information above and beyond the financial, particularly information relating to ESG issues. This extended reporting is becoming seen as increasingly

⁴ In the Australian context, for example, the IAF's role in risk management was given greater prominence in the most recent revision of the Australian Securities Exchange Corporate Governance Council's Principles and Recommendations in 2014 with Recommendation 7.3 now requiring listed organisations to disclose the existence, structure and roles of the IAF, or in the absence of an IAF, the processes used to evaluate and improve internal control and risk management effectiveness. The IIA-Australia (2016) provides an inter-jurisdiction comparison on the requirements for internal auditing in Australia.

important for organisational stakeholders as it provides greater insights into the underlying activities, overall performance and longer-term sustainability of the organisation. While the uptake in sustainability reporting has increased substantially in recent years, there remain concerns over the significant variability in the quality of this reporting, and the extent to which it is reliable (Cohen & Simnett 2015). Assurance of the reported sustainability information has been suggested to be an integral part of a quality reporting framework given ability of assurance to increase the credibility of this reporting (O'Dwyer & Owen 2007; Cheng, Green & Chi Wa Ko 2015) and to drive internal improvements in risk management systems and processes (Martinov-Bennie et al. 2012). The growth in companies publishing sustainability reports has consequently been accompanied by a marked increase in some form of external assurance of these reports (Simnett et al. 2009b).

The growing stream of research examining assurance over sustainability information has investigated a broad range of issues, including the decision to engage assurance services (at the market and organisational level) and/or choice of the type of assurance provider (and assurance standards) engaged (Park & Brorson 2005; Perego 2009; Simnett et al. 2009b; Jones & Solomon 2010; Martinov-Bennie et al. 2012; Perego & Kolk 2012; Mori Junior et al. 2014; Casey & Grenier 2015; Kend 2015; Peters & Romi 2015), outcomes and benefits of assurance engagements (O'Dwyer & Owen 2005; Ballou et al. 2012; Moroney et al. 2012; Casey & Grenier 2015), aspects of the conduct of assurance engagements (Edgley, Jones & Solomon 2010; Manetti & Toccafondi 2012) and processes in constructing and embedding sustainability assurance practices (O'Dwyer 2011; O'Dwyer et al. 2011). Overall, it has been suggested that research in this area is nascent relative to financial auditing research given that these assurance services are provided by a range of assurance providers in largely voluntary and unregulated settings across a wide range of diverse subject matter without definitive guidance or criteria to guide the conduct of these engagements (Cohen & Simnett 2015).

Given recent international and national developments in ESG reporting, including ongoing developments in IR following the formation of the IIRC in 2010 and the introduction of the European Union Directive 2014/95/EU requiring large companies to provide information on their policies, risks and outcomes in relation to ESG and diversity areas from 2018 (European Commission 2014a), the reporting and assurance of ESG information is likely to continue to be important for organisations, external and internal assurance providers and regulators in the coming years.

1.3.4 Internal audit's involvement in ESG assurance

Relative to the growing body of literature examining various aspects of external assurance over sustainability reporting, there has been a paucity of research investigating internal auditors' involvement in these areas. Nevertheless, given the importance of ESG information for management operational and strategic decision making, and the unique position of the IAF within

the organisation and its transition to undertaking a more strategic approach to its role, the capacity for internal audit to improve the reliability of ESG information has been acknowledged (Nieuwlands 2007; Deloitte 2011; Druckman 2013; IIRC 2013; IIA 2013c; Piper 2016).

The increasing importance and engagement of internal audit in ESG areas is also evidenced by the proliferation of ESG-related guidance issued by the IIA in recent years, including *Integrated Reporting and the Emerging Role of Internal Auditing* (IIA 2013c), *Evaluating Corporate Social Responsibility/Sustainable Development* (IIA 2010c) and several other specific subject-matter guides, such as on auditing external business relationships (IIA, 2009b), privacy risks (IIA 2012b) and ethics-related programs and activities (IIA 2012c).⁵

In the context of ESG engagements, the IIA's practice guide suggests that assurance activities may include auditing ESG programs, controls and disclosures, while consulting (and facilitating) include facilitating management self-assessments of ESG controls and results, and consulting "on project design and implementation for corporate social responsibility (CSR) programs and reports or serve as an advisor on CSR governance, risk management and internal controls" (IIA 2010c, p.7). It has been suggested that as organisations progress through different stages of sustainability maturity, the role of the IAF is likely to evolve, with greater emphasis on assurance (compliance) in the earlier stages and consulting (value-creation) in later stages (Deloitte 2011; IIA 2013c).

Extant academic and practitioner literature and corporate governance codes point to internal audit's increasing involvement in broad sustainability areas (Paape et al. 2003; Nieuwlands 2007; IIA 2008; Darnall et al. 2009; Jones & Solomon 2010; Deloitte 2011; Ridley et al. 2011; Ballou et al. 2012; Peters & Romi 2015; Soh & Martinov-Bennie 2015; Ramamoorti & Siegfried 2016) and a diverse range of specific ESG issues such as greenhouse gas emissions (Trotman & Trotman 2015), health and safety (Blewett & O'Keeffe 2011; Robson, Macdonald, Gray, Van Eerd & Bigelow 2012), third party risks (IIA 2009b; Tabuena 2013), risk culture (PwC 2009) and ethics (IIA 2012c).

There is also growing recognition of the importance of internal audit's role in organisational governance and evidence of greater reliance being placed on the IAF by audit committees and management in ESG areas (Jones & Solomon 2010; Soh & Martinov-Bennie 2011; Martinov-Bennie et al. 2015; Trotman & Trotman 2015). Indeed, in their recent study on assurance of sustainability reports in the US, Peters and Romi (2015, p.187) report that "internal audit services are the most prevalent source of sustainability assurance services". While independent external assurance providers are generally perceived to provide greater credibility to externally reported

⁵ It is worth noting that there are no mandatory internal auditing standards in most jurisdictions in Australia (IIA-Australia 2016). All members of IIA-Australia are required to adhere to the mandatory components of the IIA's International Professional Practices Framework (IPPF), but there is no empirical evidence to date of the reliance on IIA's Practice Guide/s (which are not a mandatory component of the IPPF) or the International Standards for the Professional Practice of Internal Auditing in guiding internal audit's involvement in non-financial areas.

ESG information, it has been noted that internal audit can provide a ‘cost effective and value-adding alternative to external CSR assurance’ (Ackers & Eccles 2015 , p.533) given internal auditors’ greater knowledge of and continual involvement with the organisation (Haji & Anifowose 2016), thus being the preferred source of assurance for some internal stakeholders (Jones & Solomon 2010; Trotman & Trotman 2015).

Despite this, there is limited research into the nature and extent of internal audit’s involvement in ‘new’ non-traditional areas including in relation to ESG matters, and how internal audit facilitates its expansion into these areas.

1.4 Research design

The overarching philosophical paradigm underpinning the thesis is that of pragmatism. Creswell (2014, p.11) states that “pragmatism is not committed to any one system of philosophy and reality”, and hence researchers who subscribe to this paradigm are able to employ mixed (quantitative and qualitative) methods to best understand and investigate the research questions under study. This thesis undertakes a mixed methods sequential explanatory design (Ivankova, Creswell & Stick 2006) to investigate its three central research aims as follows.

- **What** is the nature of internal audit’s involvement in ESG areas?
- **Why** is internal audit involved in ESG areas?
- **How** does internal audit facilitate its expansion and embed itself into emerging ESG areas?

Stage 1 of the thesis is comprised of a survey designed to explore the nature and extent of internal audit’s involvement in ESG areas, in terms of the breadth of its involvement in specific ESG areas and the overall proportion of the annual internal audit work plan devoted to these areas. Having established this context, semi-structured interviews were undertaken in Stage 2 of the thesis to explore in greater detail and elaborate on the results of the quantitative results in Stage 1 (Ivankova et al. 2006), and to specifically investigate how internal auditors are facilitating their expansion into emerging ESG areas. The following provides an overview of the design and conduct of each stage, while Figure 1.1 illustrates how they relate to each of the papers in this thesis.

1.4.1 Stage 1: Survey (Paper 1/Chapter 2 and Paper 2/Chapter 3)

Stage 1 of the study is underpinned by a positivist paradigm and involved the use of a survey questionnaire distributed to CAEs and service providers of internal audit services at the partner (or equivalent level) across different organisation types and industries in Australia to address the first two research aims outlined above. Given the exploratory nature of the thesis, this first stage of the study facilitates the discovery of new relationships “to reveal and understand complex processes, and to illustrate the influence on the social context” (Shah & Corley 2006, p.1824).

The survey instrument was designed based on a review of prior internal audit, governance and sustainability assurance literature. A cross-section of ESG issues was drawn from the Global Reporting Initiative (GRI) reporting guidelines (GRI 2011) and the UN Principles for Responsible Investing (PRI Initiative 2011) indicators and categorised into environmental and social categories. The GRI and PRI indicators were selected to ensure that both organisations' and investors' perspectives were considered, as well as to reflect the dominant use of the GRI in sustainability reporting and the growth of sustainable investing (Bendell 2010; EY & BCCCC 2014).

The survey instrument was discussed and pre-tested with five academics familiar with internal audit and/or sustainability assurance research and seven internal audit practitioners, including the IIA's technical committee and technical staff. Refinements to the survey instrument were based on these discussions and pilot-testing results. The survey instrument is provided in Appendix C to this thesis.

The survey was distributed to all CAEs and external service provider partners of internal audit services on the IIA-Australia's membership database. CAEs and service provider partners were selected as the target population for the survey given their overall responsibility for oversight of the IAF, including development of the internal audit work plan (Soh & Martinov-Bennie 2011). CAEs and service provider partners also have awareness and understanding of ESG issues under investigation at a broad level, and specifically within their (clients') organisations.

A total of 103 responses to the survey was received, of which 100 complete responses were usable. The response rate of 34% is consistent with, and in some cases slightly higher than, prior surveys of CAEs conducted within Australia (Leung, Cooper & Robertson 2004; Christopher, Sarens & Leung 2009; Leung et al. 2011; Sarens et al. 2013). The higher response rate compared to some prior studies may be attributed to the inclusion of external service provider partners (16 respondents) in the sample. Given the prevalence of internal audit outsourcing and co-sourcing arrangements in practice (Coram et al. 2008), it was considered necessary to ensure that these participants were included in the survey to ensure their perspectives were represented. Accordingly, external provider partners were asked to respond to the survey in relation to their single largest client organisation, consistent with the approach by the IIA in its Global Internal Audit Survey (IIA 2010a). Participant demographics are reported within Papers 1 and 2. The distribution of the sample of respondent organisations' industries is consistent with recent surveys of CAEs undertaken in Australia (Protiviti & IIA-Australia 2009, 2010; 2011; 2013).

1.4.2 Stage 2: Semi-structured interviews (Paper 3/Chapter 4)

A second, qualitative stage underpinned by an interpretivist paradigm, involving semi-structured interviews with CAEs and service providers of internal audit services, was subsequently undertaken

to further our understanding of the relationships discovered in the analysis undertaken in the first quantitative stage of the study. These participants were selected given their influential role in facilitating assurance practices in ESG areas within the organisation (O'Dwyer et al. 2011; IIA 2013e), as well their ability to influence the scope of the IAF's activities (Soh & Martinov-Bennie 2011).

Participants were initially recruited after they responded positively to an invitation contained in the survey in Stage 1 of the thesis. A snowball sampling approach was subsequently used to recruit additional participants. No incentives were offered for participants' involvement. 16 interviews lasting between 30 and 90 minutes with 14 participants (10 in-house senior internal auditors at the CAE or equivalent level and four outsourced internal audit service providers at the partner level or equivalent)⁶ were conducted. CAEs interviewed were from one public sector organisation and nine listed organisations across industries, including utilities, financials, health care, insurance, industrials, and hotels, restaurants and leisure, while the four service provider interviewees were asked to draw on their experience across organisations or engagements with which they have been involved. Participant details are reported within Paper 3.

As with Stage 1, participant representation across a range of organisation types (size, industry, sector) and auditor type (in-house CAE versus outsourced provider of internal audit services) allowed for a diversity of views in the interviews to facilitate a holistic investigation and consideration of the consistency of findings across institutional contexts. It should be noted, however, that the choice of participants was based on participants' rich knowledge and experience of the research subject matter to ensure in-depth insights into the areas under investigation rather than to generalise from the findings (Gendron, Bédard & Gosselin 2004; Beitin 2012; O'Reilly & Parker 2013). In responding to interview questions, given their extensive experience in internal audit, most participants (both CAEs and external service providers) drew on their present role/s as well as experiences in previous roles. The subsequent analysis of the data collected did not reveal any systematic differences in responses between respondent types.

These interviews were guided by target issues developed through the literature review, discussions with IIA and its representatives and academic colleagues, as well as the findings of the survey in Stage 1 of the thesis. At a broad level, these target issues relate to the overall research aims of the thesis and are summarised as follows:

- nature of internal audit's involvement in ESG areas;
- drivers of internal audit's involvement ESG areas;

⁶ In addition to being providers of internal audit services, three participants hold, or have held, various board positions, including that of audit committee chair, in various organisations (other than those where they are/have been employed as internal audit service providers). They drew on multiple perspectives in informing their responses during their interviews. Other participants drew on their experiences from their current and prior organisations/positions in their responses in the interviews.

- strategies adopted to enable internal audit's involvement in ESG areas.

Pilot tests of the questions and conduct of the interview were conducted with two CAEs and two academic colleagues to confirm the validity of the issues under examination. Questions posed in the semi-structured interviews were designed to be as open-ended as possible to facilitate open discussions with participants without imposing preconceived notions that may inhibit their responses (Fontana & Frey 2005; Beitin 2012; Power & Gendron 2015). To obtain context and pursue an informed line of questioning in the interviews, efforts were also made to review all publicly available relevant ESG reporting (e.g. sustainability reports, corporate governance statements, etc.) by respondents' organisation on the corporate websites. Participants were also asked if they had any further relevant areas of interest that might not have been covered in the interview questions that they would like to discuss after broad questions on the target issues (provided in Paper 3) were covered. Interviews were conducted for this stage of the study until we were confident that we had reached data saturation, at which point no additional thematic ideas emerged from the data collected in subsequent interviews (Guest, Bunce & Johnson 2006; Bowen 2008).

Interviews were transcribed and the transcripts were then processed and coded using NVivo qualitative software based on themes that emerged from the researchers' reading and discussion of the transcripts that was subjected to an iterative process during which interpretations were drawn, revisited, reflected on and challenged "in a back-and-forth interplay" with the data as contained in the transcripts (Bowen 2008, p.144) within the context of a multi-theoretical lens drawing on stakeholder, legitimacy and resource dependency theories as alternative and overlapping governance theories in addition to agency theory, which has been used as the dominant theoretical referent underlying extant governance research (Carcello, Hermanson & Ye 2011; Power & Gendron 2015). This use of alternative theories enhances our understanding of complex governance practices by providing rich insights into the issues and practices examined in this thesis (Cohen, Krishnamoorthy & Wright 2008). The underlying basis for each of these theories and its applicability to the internal audit context is developed in Paper 3.

1.5 Overview of papers

1.5.1 Paper 1: Internal auditors' perceptions of their role in environmental, social and governance assurance and consulting

At the outset of the thesis, Paper 1 sets out to investigate the current state of play with respect to internal audit's involvement in ESG areas using data from the survey of CAEs and service provider partners of internal audit services conducted in Stage 1 of the study. It specifically examines internal audit's involvement in providing assurance and consulting over a comprehensive range of specific ESG issues. To identify emerging priorities in terms of specific ESG issues, and the internal

audit profession's capacity to respond to these, the paper also explores internal audit practitioners' perceptions of the current and future importance of these issues and the adequacy of their skills and expertise in meeting the challenges associated with their involvement in these areas. In addition to providing a comprehensive literature review outlining the case for internal audit's involvement in specific ESG areas and its implications, the findings in this initial paper provide the context for the rest of the thesis.

1.5.2 Paper 2: Factors associated with internal audit's involvement in environmental and social assurance and consulting

Paper 2 aims to further our exploration and understanding of internal audit's involvement in environmental and social assurance and consulting by examining factors associated with the extent of internal audit's involvement in these areas. As in Paper 1, this paper uses data collected from the survey conducted in Stage 1 of the study to model the association between specific governance factors (audit committee oversight, senior management support, IAF interaction with sustainability committee), IAF factors (structure/sourcing, maturity), organisational sustainability practices (external reporting and use of external assurers) and the extent of internal audit's involvement in environmental and social assurance and consulting activities. The paper reports findings that taken collectively with those in Paper 1 begin to reveal patterns in explaining the drivers of internal audit's involvement in ESG areas. The results indicate that factors examined do not apply uniformly across different types of ESG issues (environmental versus social) and internal audit activity (assurance versus consulting), suggesting that a more nuanced approach to investigating different aspects of internal audit's roles and activities within the context of its involvement in ESG areas is necessary.

1.5.3 Paper 3: The dynamics of internal audit's involvement in environmental, social and governance assurance and consulting

Paper 3 is based on the semi-structured interviews conducted in the second stage of this study. Drawing on the interview data, Paper 3 adds depth and nuance to the findings in Papers 1 and 2 and explores the organisational dynamics of internal audit's involvement in ESG areas in practice. In particular, the paper investigates how internal audit embeds itself and facilitates its expansion into emerging ESG areas. In so doing, it responds to the finding in Paper 2 that management support is a key factor associated with the extent of the IAF's assurance and consulting involvement in environmental and social areas and subsequent calls for investigation of how such support is obtained in practice. To obtain a richer understanding of these processes in practice, Paper 3 adopts a multi-theoretical perspective drawing on agency, stakeholder, legitimacy and resource dependency theories in analysing data collected from the semi-structured interviews.

1.6 Organisation of thesis

This thesis consists of five chapters. This chapter provides the context and motivation for the study, an overview of the relevant literature within which the study is situated and outlines the research design and its rationale. The subsequent three chapters consist of three papers that make up three distinct interrelated studies as outlined below. Finally, Chapter 5 concludes the thesis by providing a summary and synthesis of the findings across all three papers, outlining the contributions and limitations of the study, as well as avenues for future research

Figure 1.1 provides an overall visual representation of the structure of the thesis. It illustrates the mixed methods approach for this study and how each of the research papers in the subsequent chapters incrementally builds on the previous in undertaking the investigation into internal audit's involvement in ESG areas.

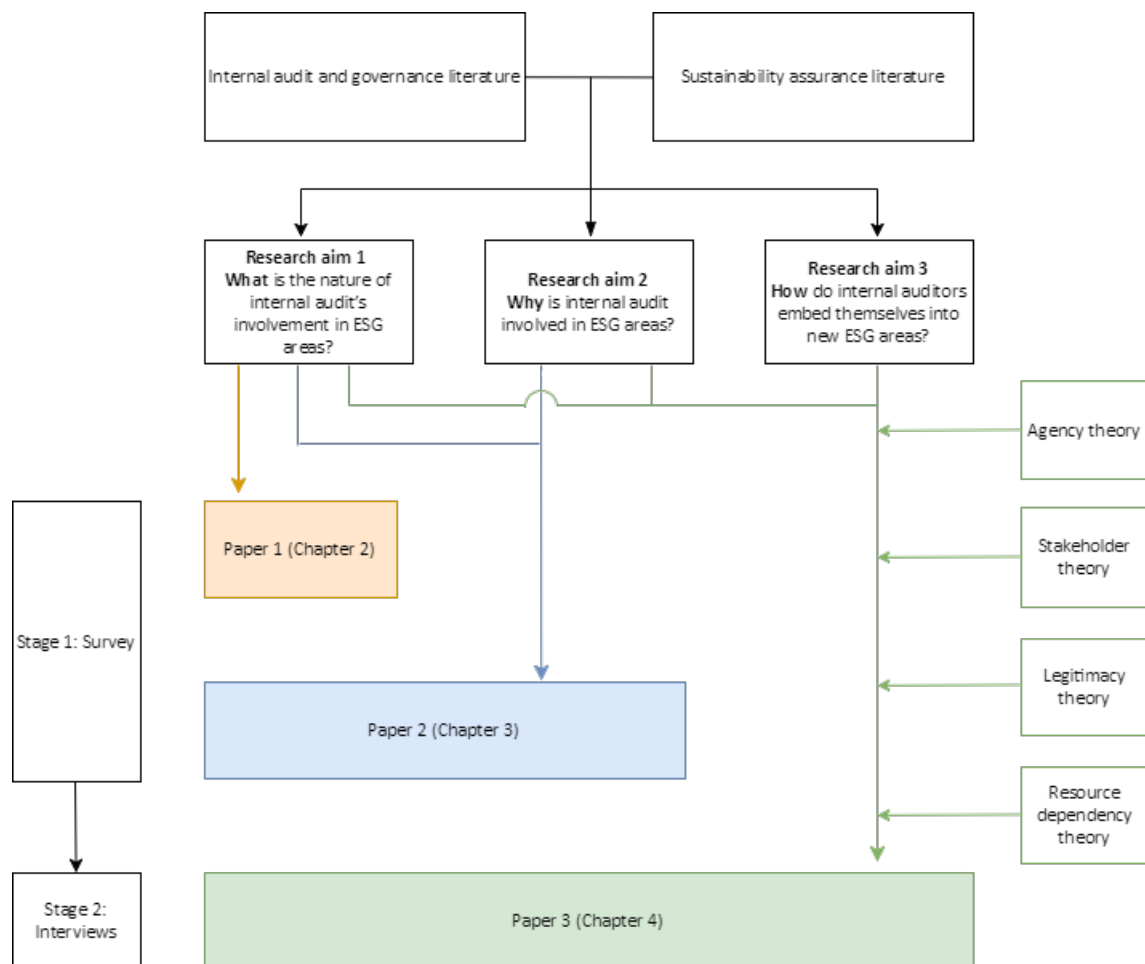


Figure 1.1 Visual representation of thesis structure

Chapter 2

Paper 1 – Internal auditors' perceptions of their role in environmental, social and governance assurance and consulting

This paper is published in *Managerial Auditing Journal* as follows:

- Soh, D. S. B. and N. Martinov-Bennie (2011). "The internal audit function: Perceptions of internal audit roles, effectiveness, and evaluation." *Managerial Auditing Journal* 26(7): 605-622.

Pages 21-52 of this thesis have been removed as they contain published material. Please refer to the following citation for details of the article contained in these pages.

Soh, D. S. B. and Martinov-Bennie, N. (2011). The internal audit function: perceptions of internal audit roles, effectiveness, and evaluation. *Managerial Auditing Journal* 26(7) p. 605-622.

DOI: [10.1108/02686901111151332](https://doi.org/10.1108/02686901111151332)

Chapter 3

Paper 2 – Factors associated with internal audit's involvement in environmental and social assurance and consulting

Earlier versions of this paper have been presented at the following conferences:

- 2013 Accounting and Finance Association of Australia and New Zealand (AFAANZ) Conference, Perth, Australia, 7-9 July 2013.
- 2016 European Accounting Association Annual Congress, Maastricht, The Netherlands, 10-13 May 2016.

The paper is currently under review at the *International Journal of Auditing*.

Factors associated with internal audit's involvement in environmental and social assurance and consulting

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3.1 Abstract

While there is growing evidence of internal audit's expanding role in sustainability matters, there is limited understanding of factors associated with the extent of internal audit's involvement in these areas. This study examines the impact of governance factors, internal audit function characteristics and organisational sustainability practices on the extent of internal audit's involvement in environmental and social assurance and consulting. The results suggest that management support and external reporting of sustainability information are key factors associated with internal audit's involvement in environmental and social assurance and consulting activities. The results also indicate that the extent of internal audit's involvement in assurance and consulting are not necessarily driven by a homogenous set of factors. These findings suggest that future research might benefit from taking a more nuanced approach to investigating different aspects of internal audit's roles both within the sustainability context, and more broadly.

Keywords: Internal audit; Sustainability assurance; Corporate governance

3.2 Introduction

The global business environment has undergone significant change in the last decade. In the aftermath of major corporate collapses and the global financial crisis brought about by excessive risk-taking, organisations face greater scrutiny by regulators, investors, customers and wider stakeholders (Davies et al. 2010). This has seen greater accountability demands on organisations to extend their reporting beyond financials and has driven increased sustainability reporting internationally (Simnett et al. 2009b).

The heightened focus on sustainability reporting has seen a concomitant increase in demand for assurance over related information and disclosures to add to their credibility (Moroney et al. 2012; Cohen & Simnett 2015). A growing stream of sustainability assurance research has examined these international trends in assurance practices (Perego & Kolk 2012; Mori Junior et al. 2014), factors associated with the decision to obtain sustainability assurance, and the type of assurance provider engaged (Darnall et al. 2009; Perego 2009; Simnett et al. 2009b; Kolk & Perego 2010; Casey & Grenier 2015; Peters & Romi 2015).

Recent studies provide evidence that companies are increasingly incorporating sustainability information into operational, strategic and risk management decisions (Adams & Frost 2008; Martinov-Bennie et al. 2012). Within this internal context, assurance services also have the potential to add value to sustainability management and reporting systems by driving internal organisational change and improvement (Mock et al. 2007; Darnall et al. 2009; Edgley et al. 2010) and to assist in embedding sustainability within strategic decision making in organisations (Ballou et al. 2012).

It has been recognised that internal audit has a role to play in adding credibility to sustainability information and identifying gaps for improvement as organisations begin to link sustainability management and reporting to risk management systems and processes (ICAA & Kiewa 2011).

While there is emerging evidence of internal audit providing assurance on sustainability information (Darnall et al. 2009; Jones & Solomon 2010; Peters & Romi 2015; Soh & Martinov-Bennie 2015; Trotman & Trotman 2015), there is limited understanding of organisations' decisions to involve internal audit in these areas.

This exploratory study aims to address the gap in the extant research by examining factors associated with the IAF's involvement in sustainability⁷ assurance and consulting activities. More specifically, using survey data, we examine the association between governance factors, IAF characteristics and organisational sustainability practices and the extent of the IAF's involvement in undertaking assurance and consulting engagements in relation to environmental and social issues.

⁷ 'Sustainability' is a generic term typically used to refer to environmental, social and economic issues. This paper specifically focuses on environmental and social issues. Subsequent use of 'sustainability' therefore refers jointly to environmental and social issues.

In so doing, the paper responds to calls for greater attention to various types of assurance mechanisms in sustainability areas (Darnall et al. 2009), and specifically internal audit's involvement in these areas (Ridley et al. 2011; Soh & Martinov-Bennie 2015).

This study makes a number of contributions. First, prior studies examining sustainability assurance have generally either examined broad conceptions of sustainability reporting without consideration of the diversity of sustainability issues (e.g. Casey & Grenier 2015), or examined discrete aspects of sustainability, for example, workplace health and safety (Blewett & O'Keeffe 2011) and greenhouse gas emissions and energy reporting (Trotman & Trotman 2015). By examining environmental and social areas separately, this study employs a more nuanced approach to investigating whether the factors associated with internal audit's involvement vary across categories of sustainability areas.

Second, the focus of prior studies examining sustainability assurance practices is on broad firm and institutional characteristics (Peters & Romi 2015). However, extant internal audit research provides evidence of the importance of internal factors in investigating internal audit's roles and effectiveness (Gramling et al. 2004; Arena & Azzone 2009; Cohen & Sayag 2010; Leung et al. 2011; Soh & Martinov-Bennie 2011; Sarens et al. 2012a). This study therefore focuses on internal factors by examining governance factors, internal audit characteristics, and organisational sustainability practices, which in some cases can only be examined by collecting primary data.

Further, most prior sustainability assurance studies have relied on publicly available information, typically organisations' sustainability reports. However, not all organisations that engage sustainability assurance services publish stand-alone sustainability reports or otherwise publicly disclose details of the nature of assurance obtained on sustainability information (Ballou et al. 2012). There is also arguably limited incentive to disclose internal audit's involvement in sustainability assurance (or consulting) activities. By undertaking a survey approach, consistent with prior internal audit research (Beasley, Clune & Hermanson 2005; Abbott, Parker & Peters 2010), this study is able to specifically examine the extent of internal audit's involvement in environmental and social areas.

Finally, most prior studies have focused on the assurance aspect of internal audit's role, with very few directly examining the consulting aspect of the IAFs' activities. Given increasing emphasis being placed on the IAF's consulting role (Sarens & De Beelde 2006b, 2006a; Soh & Martinov-Bennie 2011), this study examines separately the assurance and consulting roles performed by internal audit in relation to sustainability areas.

Current developments in corporate reporting, including integrated reporting (IR) which aims to combine financial and non-financial information, are likely to increase demand for assurance of such reporting and the need for further research in this area to respond to associated challenges (Cohen & Simnett 2015). One of the current challenges relates to the development of combined

assurance models that take into account assurance provided by various parties, including management, internal audit and other external assurance providers (IRC 2011; IIRC 2015). This is pertinent in developing appropriate audit strategies and approaches in response to diverse risks faced by organisations (Sarens et al. 2012b; Decaux & Sarens 2015; Huibers 2015). To this end, this study provides useful input for policy makers, external assurance providers and governance actors in developing combined assurance approaches to improve the level of comfort provided to various internal and external stakeholders through potential greater collaboration between different types of assurance providers (Sarens et al. 2009). In light of evidence of internal audit's influential role in diffusing sustainability assurance (O'Dwyer et al. 2011) and IR efforts within the organisation (Deloitte 2011; Druckman 2013; IIA 2013c; CHIA 2015; IIRC 2015), investigation of the factors associated with the extent of assurance and consulting work being undertaken by IAFs over sustainability issues is timely.

The remainder of this paper is structured as follows. The following section provides the context for the changing nature of the role and expectations of internal audit and reviews relevant literature in developing the study's hypotheses. Section 3.4 describes the research method undertaken in this study. Section 3.5 presents and discusses the results of the study. The final section concludes the paper, outlines limitations of the study and suggests potential areas for future research.

3.3 Literature review and hypotheses development

The importance of internal audit's role in organisational governance is increasingly recognised, with greater reliance being placed on the IAF by audit committees and management. The widening remit of audit committees is accompanied by the IAF's expansion beyond its traditional predominantly financial reporting role, to areas such as risk management, operational auditing and business improvement (Collier & Zaman 2005; Soh & Martinov-Bennie 2011; Martinov-Bennie et al. 2015). Based on findings from a global survey conducted by the IIA, Allegrini et al. (2011) report that internal audit practice is evolving rapidly, with enterprise risk management audits, ethics audits and social and sustainability audits likely to become key focus areas for the IAF in the future.

While it has been reported that the majority (79%) of the IAF's work is on non-financial matters (Protiviti & IIA-Australia 2011), and despite evidence that IAFs are indeed involved in a number of specific sustainability areas (e.g. Paape et al. 2003; Darnall et al. 2009; Ballou et al. 2012; Soh & Martinov-Bennie 2015; Trotman & Trotman 2015), the nature and extent of internal audit's involvement (i.e. assurance versus consulting)⁸ in sustainability areas is still largely unknown.

⁸ Internal audit's assurance and consulting roles are broadly defined in the IIA's International Professional Practices Framework and can include a wide range of activities (e.g. see IIA, 2009). In light of these definitions and the exploratory nature of the current study into internal audit's involvement in emerging, non-traditional areas of environmental and social issues, a broad conceptualisation of assurance and consulting is adopted.

Emerging qualitative research reveals a preference by corporate governance actors for assurance provided by internal audit over that provided by external assurance providers (Soh & Martinov-Bennie 2011), including specifically in the context of sustainability assurance (Jones & Solomon 2010; Trotman & Trotman 2015). This is supported by a recent US study reporting that ‘internal audit services are the most prevalent source of sustainability assurance services’ (Peters & Romi 2015, p.187) engaged by organisations. In light of prior studies’ findings and current developments in corporate reporting and governance, including efforts to develop combined assurance models (a multi-assurance provider approach) for non-financial information (Simnett, Zhou & Hoang 2016), this study provides important insights into factors associated with the extent of IAF involvement in sustainability assurance and consulting.

Each of the specific governance, IAF characteristics and organisational sustainability practices factors investigated by this study are discussed in turn in the remainder of this section.

3.3.1 Governance factors

3.3.1.1 Audit committee oversight

In order to maintain IAF independence, objectivity and organisational stature, a dual reporting structure for the IAF is typically recommended (Leung et al. 2004; Mat Zain & Subramaniam 2007; Soh & Martinov-Bennie 2011). Under such a structure, the IAF reports functionally to the audit committee, while reporting administratively (day-to-day operations such as the administration of the organisation’s internal policies and procedures) to management. This entails the audit committee holding responsibility for reviewing and approving the IAF’s charter, work plan, and resources and budget, as well as the hiring/firing decision of the CAE.

Prior studies report that the extent of audit committee oversight influences the focus of the IAF’s work (Abbott et al. 2010) and that CAEs perceive audit committee support and oversight of the IAF to be essential in the performance of its duties and in contributing to its effectiveness (Mat Zain & Subramaniam 2007; Soh & Martinov-Bennie 2011). Abbott et al. (2010) find that IAFs with greater audit committee oversight (based on reporting lines, CAE termination rights and budgetary control) relative to senior management (CEO/CFO) are more likely to focus on controls-related activities, while acknowledging that the categorisation of this work is broad. It has also been reported that when management has greater oversight responsibility over the IAF, its activities tend to be more focused on financial aspects (Abbott et al. 2010; Soh & Martinov-Bennie 2011).

There is also emerging evidence that audit committees are increasingly employing a broader view of their governance oversight role, and as part of their risk management responsibilities are considering a wider range of risks. Further, audit committee members increasingly conceive of their committee’s role as part of the organisation’s ‘value-creation process’ (Martinov-Bennie et al.

2015, p.739). It is therefore likely that audit committee oversight affects the extent of internal audit involvement in sustainability assurance and consulting as the committee uses the IAF as a ‘comfort provider’ in its governance and risk management roles (Gendron et al. 2004; Sarens et al. 2009; Soh & Martinov-Bennie 2011), and a valuable resource in contributing to the committee’s value-creation efforts (Martinov-Bennie et al. 2015).

Given the above, it is expected that greater audit committee oversight of the IAF relative to management drives higher levels of IAF involvement in sustainability activities. Our first hypothesis is therefore:

- H1:** Greater (lesser) audit committee oversight of the IAF is positively (negatively) associated with the extent of internal audit’s involvement in sustainability assurance and consulting activities.

3.3.1.2 Senior management support

Prior research suggests that senior management support is an important factor in determining the IAF’s roles and effectiveness (Sarens & De Beelde 2006c, 2006a; Cohen & Sayag 2010; Soh & Martinov-Bennie 2011; Sarens et al. 2012a). Research in enterprise risk management indicates that management encouragement and support is positively associated with the success of the adoption and implementation of risk management initiatives (Beasley et al. 2005). Based on prior research finding that senior management support is a key factor in ensuring the IAF has adequate resources and authority (Van Peursem 2005; Sarens & De Beelde 2006a) and emerging evidence of internal audit playing a growing consulting role in supporting management consistent with resource dependency theory (Trotman & Trotman 2015), it is expected that management support for internal audit’s involvement in sustainability areas will be positively associated with the extent of the function’s involvement in providing assurance and consulting over these areas. The following hypothesis is therefore proposed:

- H2:** Senior management’s (lack of) support of internal audit’s involvement in sustainability assurance and consulting activities is positively (negatively) associated with the extent of its involvement in these areas.

3.3.1.3 IAF interaction with the sustainability committee

Prior sustainability assurance research has examined the association between the existence and composition of a sustainability (or equivalent) committee and the engagement of assurance services. Peters and Romi (2015) found that the mere presence of a sustainability committee did not increase the likelihood of organisations assuring their sustainability reports. However, sustainability committees with greater sustainability-related expertise were more likely to engage assurance services and tended to preference engaging professional accounting firms over sustainability consultants or internal auditors.

Extant research provides evidence of the importance of internal audit's interactions with governance mechanisms, such as management and/or the audit committee, in influencing the nature and focus of the IAF's work (Sarens et al. 2012a). Recent qualitative research on internal audit's involvement in greenhouse gas and energy reporting suggests that audit committee oversight over these disclosures is highly variable in practice (Trotman & Trotman 2015), with other board committees taking a more active oversight role in some instances. Given the above, it is expected that IAFs that interact more closely with the sustainability committee, proxied by reporting to the committee in relation to its sustainability assurance and consulting work, are more likely to be involved in these areas. The third hypothesis is thus:

- H3:** The extent of internal audit's involvement in sustainability assurance and consulting activities is positively (negatively) associated with its (lack of) interaction with the sustainability committee.

3.3.2 IAF characteristics

Extant internal audit research examining the roles and effectiveness of the IAF have examined specific characteristics of the IAF, such as its resources and size (Sarens & Abdolmohammadi 2011; Lenz et al. 2014), sourcing structure (Ahlawat & Lowe 2004; Coram et al. 2008; Glover et al. 2008; Munro & Stewart 2010; Desai et al. 2011; Soh & Martinov-Bennie 2011; Abdolmohammadi 2013) and maturity (Arena & Azzone 2007; Sarens et al. 2011). While prior research has examined the association between governance and organisational characteristics and the choice to use the IAF for sustainability assurance (Peters & Romi 2015), there has been limited direct investigation of IAF characteristics in influencing the extent of IAF involvement in sustainability assurance and consulting. This study focuses on IAF structure and maturity, as outlined below.

3.3.2.1 IAF structure

Prior research on IAF structure has predominantly examined staffing variations and their effects on the external auditor reliance decision (see Bame-Aldred et al. 2013). Results in the Australian context indicate that in-house IAFs are (perceived to be) more effective (Coram et al. 2008; Soh & Martinov-Bennie 2011) and relied upon to a larger extent by external auditors (Munro & Stewart 2010). Studies in the US context, on the other hand, indicate that external auditors perceive outsourced IAFs to be more objective and hence place greater reliance on them (Glover et al. 2008).

In light of the reported need for sustainability skills within IAFs (Protiviti & IIA-Australia 2011) and the perceived lack of sustainability subject matter expertise in limiting IAFs' involvement in these areas (Trotman & Trotman 2015), it is expected that outsourced and co-sourced IAFs are more likely to engage in sustainability assurance and consulting activities as they have greater access

to skills and expertise required to conduct these engagements. The following hypothesis is therefore proposed:

- H4:** Outsourced and co-sourced IAFs are more likely to have greater involvement in sustainability engagements than in-house IAFs.

3.3.2.2 IAF maturity

Prior research indicates that the maturity of the IAF as proxied by the length of time that the IAF has been established within the organisation influences the overall acceptance and support for the function (Sarens & De Beelde 2006c), with evidence suggesting that older IAFs have relatively more diversified agendas relative to younger IAFs, including specifically in relation to social and sustainability audits (Sarens et al. 2011). It is therefore hypothesised that the level of maturity impacts the breadth of the IAF's scope and the extent of its involvement in sustainability areas as follows:

- H5:** The level of IAF maturity is positively associated with the extent of its involvement in sustainability assurance and consulting activities.

3.3.3 Organisational sustainability practices

3.3.3.1 External reporting of sustainability issues

Increasing regulatory requirements in relation to external sustainability reporting internationally (Ioannou & Serafeim 2012a; European Commission 2014a, 2014b) and the risks associated with these reporting requirements are likely to drive increased demand for assurance, including greater IAF involvement in sustainability assurance and consulting. Notwithstanding prior findings that suggest external sustainability assurance is engaged by some organisations to project a symbolic image of accountability in line with institutional theory (Perego & Kolk 2012), prior research generally indicates that assurance (both internal and external) has the potential to enhance the quality and credibility of sustainability disclosures (Mercer 2004; Moroney et al. 2012; Peters & Romi 2015) and that a desire to enhance the credibility of this information for both internal and external audiences is a key driver for engaging assurance (Simnett et al. 2009b; Martinov-Bennie et al. 2012; Perego & Kolk 2012). It is thus expected that the degree to which sustainability issues are externally reported is associated with the extent of the IAF's involvement in sustainability activities. The following hypothesis is proposed:

- H6:** External sustainability reporting is positively associated with the extent of internal audit's involvement in sustainability assurance and consulting activities.

3.3.3.2 External assurance over sustainability issues

External assurance over sustainability information is generally obtained to enhance its credibility (Simnett et al. 2009b). On the one hand, an inverse relationship between external assurance and

internal audit's involvement in sustainability assurance is expected as external assurance can dispense with the need for internal audit's involvement to avoid duplication of effort (Soh & Martinov-Bennie 2011; Ackers & Eccles 2015; Peters & Romi 2015) while directing internal audit's resources towards other activities including sustainability consulting.

On the other hand, engagement of external assurance providers in relation to sustainability matters is indicative of a proactive approach to addressing sustainability risks by an organisation's management. In these cases it is possible that internal audit may be directed to undertake assurance on sustainability issues in addition to that performed by external assurance providers or to provide assistance to external assurers to reduce external audit costs. In the context of the financial audits, meta-analyses support the existence of a complementary relationship between investments in external and internal audit (Hay, Knechel & Ling 2008; Hay 2013).

Prior research provides evidence of a range of different approaches in relation to engaging external and internal audit over environmental areas. While it has been reported that there is generally no clear preference for internal versus external audit so long as assurance is being provided (Trotman & Trotman 2015), there is evidence that in some cases senior management and/or boards prefer assurance from internal auditors rather than external assurance providers, given internal auditors' greater knowledge and continual involvement with the organisation (Jones & Solomon 2010; Trotman & Trotman 2015), and the potential for internal audit to provide a 'cost effective and value-adding alternative to external CSR assurance' (Ackers & Eccles 2015, p.533). However, it has also been noted that external stakeholders may prefer external assurance providers given that they are independent of the organisation (Trotman & Trotman 2015).

In light of ongoing development of combined assurance models, it is timely to investigate whether IAF involvement in assurance of sustainability information is used to complement or substitute external assurance (Simnett & Huggins 2015). Given the competing arguments, the following hypothesis is proposed without predicting a direction:

- H7:** The extent of internal audit's involvement in sustainability assurance and consulting is associated with the extent of external assurance over sustainability information.

3.4 Research method

While prior studies examining the choice of assurance provider have generally relied on published sustainability reports (Casey & Grenier 2015; Peters & Romi 2015), a similar archival approach is not feasible in investigating internal audit's involvement in sustainability assurance and consulting. Not all organisations that engage sustainability assurance services publish stand-alone sustainability reports or otherwise publicly disclose the nature and extent of assurance obtained on sustainability information (Ballou et al. 2012). The nature of sustainability information is varied, with arguably

limited incentive to disclose internal audit's involvement in sustainability assurance (or consulting) activities. A survey approach, consistent with prior studies investigating internal audit activities (Beasley et al. 2005; Abbott et al. 2010; Leung et al. 2011), was thus employed as the most appropriate means to collect data for this exploratory study.

3.4.1 Survey instrument

The survey instrument was designed based on a review of prior internal audit, governance and sustainability assurance literature. Measures were adapted from these studies as outlined in Section 3.4.3 below. A cross-section of sustainability issues was drawn from the Global Reporting Initiative (GRI) reporting guidelines (GRI 2011) and the UN Principles for Responsible Investing (PRI Initiative 2011) indicators and categorised into environmental and social categories. The GRI and PRI indicators were selected to ensure that both organisations' and investors' perspectives were considered, as well as to reflect the dominant use of the GRI in sustainability reporting and the growth of sustainable investing (Bendell 2010; EY & BCCCC 2014).

The survey instrument was discussed and pre-tested with five academics familiar with internal audit and/or sustainability assurance research and seven internal audit practitioners, including the IIA's technical committee and technical staff. Refinements to the survey instrument were based on these discussions and pilot-testing of results. The list of sustainability issues included in the environmental and social categories is provided in Figure 3.1 while the survey instrument is provided in Appendix C to this thesis.

| |
|---------------------------------------|
| Environmental issues |
| Energy usage |
| Materials usage |
| Greenhouse gas emissions |
| Hazardous waste management |
| Water management |
| Impacts on biodiversity |
| Social issues |
| Occupational health and safety (OH&S) |
| Employee retention and turnover |
| Training and education |
| Supply chain issues |
| Human rights issues |
| Community impacts and relations |
| Donations and sponsorships |
| Product responsibility |
| Customer privacy |

Figure 3.1 List of environmental and social issues

3.4.2 Sample

A survey was distributed to all CAEs and external service provider partners of internal audit services on the IIA-Australia's membership database. CAEs and service provider partners were selected as the target population for the survey given their overall responsibility for oversight of the IAF, including development of the internal audit work plan (Soh & Martinov-Bennie 2011). CAEs and service provider partners also have awareness and understanding of sustainability issues under investigation at a broad level, and specifically within their (clients') organisations. Further, internal auditors are perceived to be influential in embedding sustainability assurance within organisations (O'Dwyer et al. 2011; IIRC 2015).

A total of 103 responses to the survey were received, of which 100 complete responses were usable. The response rate of 34% is consistent with, and in some cases slightly higher than, prior surveys of CAEs conducted within Australia (Leung et al. 2004; Christopher et al. 2009; Leung et al. 2011; Sarens et al. 2013). The higher response rate compared to some prior studies may be attributed to the inclusion of external service provider partners (16 respondents) in the sample. External provider partners were asked to respond to the survey in relation to their single largest client organisation, consistent with the approach by the IIA in its Global Internal Audit Survey (IIA 2010a).

An overview of the participant demographics is provided in Table 3.1. Respondents had an average of 16.24 years of experience in internal auditing, had been in the position of CAE or external service provide partner in the same organisation for an average of five years, and represented a diverse range of industries. This distribution is largely consistent with recent surveys of CAEs undertaken in Australia (Protiviti & IIA-Australia 2009; 2010; 2011; 2013; Sarens et al. 2013).

3.4.3 Model specification

Consistent with the approach of prior studies investigating the extent of internal audit's involvement in specific activities (Abbott et al. 2010), the dependent variable is a proportion bounded between zero and one representing the percentage of the annual internal audit work plan devoted to assurance and consulting services on environmental and social issues. Four empirical models (depicted in Figure 3.2) are used to test the association between (i) governance factors, (ii) IAF characteristics and (iii) organisational sustainability practices and the extent of IAF assurance and consulting activity in relation to environmental and social areas. We estimate these models using a generalised linear model (GLM) based fractional response variable regression developed by Papke and Wooldridge (1996) with the specification of probit link function. This approach ensures robust, consistent estimates when the dependent variable is bounded between zero and one, with a relatively high incidence of observations at the limits and ensures that predicted response values fall within this interval limit (Papke & Wooldridge 1996; Core, Guay & Larcker 2008; Li 2013).

Table 3.1 Participant demographics

| | % |
|--|--------------------|
| <i>Respondent type</i> | |
| Chief audit executive | 84 |
| Internal audit service provider partner | 16 |
| <i>Industry</i> | |
| Resources and utilities | 18 |
| Construction and manufacturing | 5 |
| Transport, postal and warehousing | 9 |
| Consumer discretionary | 10 |
| Financials | 13 |
| Public administration and other services | 45 |
| <i>Experience</i> | |
| | Mean (SD) |
| Internal auditing | 16.24 years (6.71) |
| CAE/Partner in current organisation | 5 years (3.78) |

| | Assurance | Consulting |
|---------------|---------------------------------|----------------------------------|
| Environmental | Model 1 (<i>ENVASSURE</i>) | Model 2 (<i>ENVCONSULT</i>) |
| Social | Model 3 (<i>SOCASSURE</i>) | Model 4 (<i>SOCCONSULT</i>) |

Figure 3.2 Models and dependent variables

The base model is specified as follows:

$$\begin{aligned}
 ASSURE_i / CONSULT_i = & \beta_0 + \beta_1 ACOVSIGHT + \beta_2 MGTSUP_y + \beta_3 SUSCOMMREP + \\
 & \beta_4 IAFSTRUC + \beta_5 IAFAGE + \beta_6 REP_i + \beta_7 EXASSR_i + \\
 & \beta_8 SENSINDUS + \beta_9 BIG4 + \beta_{10} ORGSIZE + \epsilon
 \end{aligned}$$

Table 3.2 provides a summary of the definitions of the variables included in the models.

3.4.3.1 Dependent variables

The dependent variables, as per prior studies (Abbott et al. 2010), reflect the distribution of internal audit's involvement in assurance and consulting on environmental and social areas. *ENVAASSURE* and *ENVCONSULT* measure the percentage of the annual internal audit work plan devoted to assurance and consulting on environmental issues respectively. *SOCASSURE* and *SOCCONSULT* measure the percentage of the annual internal audit work plan devoted to assurance and consulting on social issues respectively.

3.4.3.2 Governance variables

ACOVISIGHT adopts the measure of oversight of the IAF by the audit committee relative to management (CEO/CFO) developed by Abbott et al. (2010), which is based on IAF reporting lines and responsibilities for the IAF budget and CAE termination. The variable ranges from 0 (audit committee has no oversight over the IAF) to 1 (audit committee has total oversight responsibility over the IAF).

MGTSUPASSR and *MGTSUPCONSULT* measure the perceived level of senior management (CEO/CFO) support for the IAF's involvement in sustainability assurance and consulting activities respectively. The variable was measured on a Likert scale of 1 (None) to 5 (Very High). This is consistent with the method employed by Beasley et al. (2005) in measuring senior management support for internal audit's involvement in enterprise risk management initiatives.

Prior sustainability assurance research reports that the existence of a sustainability committee is not related to the decision to engage sustainability assurance (Peters & Romi 2015). Accordingly, we specifically measure the interaction of the IAF with the sustainability committee, *SUSCOMMREP*, as a dichotomous variable, coded as 1 if the IAF reports to a sustainability committee (chairperson) in relation to sustainability engagements, and 0 otherwise.

3.4.3.3 IAF characteristics

To determine whether IAFs use in-house and/or outsourced personnel, respondents were asked to report the number of the full-time equivalent personnel in their IAF that were in-house and outsourced. *IAFSTRUC* is a dichotomous variable with 1 representing IAFs that use external personnel (i.e. are either co-sourced or outsourced), and 0 otherwise. The aggregation of outsourced and co-sourced functions is consistent with that employed by the IIA in its Global Internal Audit Survey (IIA 2010a).

IAFAGE represents the maturity of the IAF. Consistent with extant research (Sarens et al. 2011), this is measured as the number of years that the IAF has been in place within its organisation.

3.4.3.4 Organisational sustainability practices

ENVREP and *SOCREP* reflect the extent of environmental and social reporting of respondent organisations, measured by the number of environmental and social issues included in the survey⁹ (range 0 to 6 for environmental issues and 0 to 9 for social issues) respectively on which a respondent organisation externally reports.

ENVEXASSR and *SOCEXASSR* reflect the extent to which environmental and social issues are externally assured, measured by the number of environmental (range 0 to 6) and social issues (range 0 to 9) for which a respondent organisation engages external assurance providers.

3.4.3.5 Control variables

Consistent with prior studies examining voluntary adoption of sustainability assurance (Simnett et al. 2009b; Moroney et al. 2012; Peters & Romi 2015), industry (*SENSINDUS*) and organisation size (*ORGSIZE*) are included as control variables in the specified models.

Prior research indicates that the industry in which an organisation operates impacts upon its sustainability risks and performance (Ioannou & Serafeim 2012b; Peters & Romi 2015) and the extent and quality of its sustainability disclosures, including whether these disclosures are assured (Mock et al. 2007; Simnett et al. 2009b; Kolk & Perego 2010; Moroney et al. 2012). These studies have reported that organisations operating in sensitive industries with greater environmental and social risks (generally utilities, materials and industrials) make higher quality voluntary environmental disclosures (Moroney et al. 2012) and are more likely to issue assured sustainability reports (Mock et al. 2007), given expectations of greater credibility of their reporting (Simnett et al. 2009b). Recent research on internal audit's involvement in greenhouse gas emissions and energy reporting also reports greater involvement in these areas for organisations operating in industries with greater legislative requirements and stakeholder involvement, such as the mining industry (Trotman & Trotman 2015). Accordingly, *SENSINDUS* is included as a control variable and is measured as 1 if the organisation operates in materials (agriculture, forestry and fishing and mining), industrials (manufacturing and construction) and utilities (electricity, gas, water and waste services), and 0 otherwise. We expect a positive association between *SENSINDUS* and internal audit's involvement in sustainability assurance and consulting given the greater exposure of organisations in these industries to sustainability risks.

⁹ Figure 3.1 provides a list of the environmental and social issues specifically included in the survey.

Table 3.2 Variable definitions

| Variable | Definition |
|-------------------|---|
| $ASSURE_i^*$ | = % of annual internal audit work plan devoted to assurance services on environmental/social issues; i = environmental/social (variable prefixed by <i>ENV</i> / <i>SOC</i> in Models 1 and 3 respectively); |
| $CONSULT_i^*$ | = % of annual internal audit work plan devoted to consulting services on environmental/social issues; i = environmental/social (variable prefixed by <i>ENV</i> / <i>SOC</i> in Models 2 and 4 respectively); |
| <i>ACOVISIGHT</i> | = relative oversight of IAF by the audit committee vis-à-vis management (CEO and CFO), measured by respondents' Likert scale answers concerning IAF reporting relationships, CAE termination rights, and budgetary oversight (adopted from Abbot, Parker and Peters (2010)); |
| $MGTSUP_y$ | = Perceived level of senior management (CEO/CFO) support for IAF's involvement in sustainability assurance/consulting activities measured on an interval scale from 1 = None to 5 = Very High (variable suffixed by <i>ASSR</i> in Models 1 and 3 and <i>CONSULT</i> in Models 2 and 4 respectively); |
| <i>SUSCOMMREP</i> | = 1 if IAF reports to sustainability committee (chairperson) in relation to sustainability engagements, and 0 otherwise; |
| <i>IAFSTRUC</i> | = 1 if IAF is a co-sourced or outsourced function, and 0 otherwise; |
| <i>IAFAGE</i> | = number of years that IAF has been in place within organisation; |
| REP_1^* | = count of number of environmental/social issues externally reported by the organisation; i = environmental/social (variable prefixed by <i>ENV</i> in Models 1 and 3 and <i>SOC</i> in Models 2 and 4); |
| $EXASSR_i^*$ | = count of number of environmental/social issues for which external assurance is engaged by the organisation; i = environmental/social (variable prefixed by <i>ENV</i> in Models 1 and 3 and <i>SOC</i> in Models 2 and 4); |
| <i>SENSINDUS</i> | = 1 if the organisation is in a sensitive industry (Agriculture, Forestry and Fishing, Mining, Construction, Manufacturing, Electricity, Gas, Water and Waste Services), otherwise 0; |
| <i>BIG4</i> | = 1 if organisation's external auditor is a Big-4 auditor, otherwise 0; |
| <i>ORGSIZE</i> | = Log of total assets. |

* Figure 3.1 provides a list of the environmental and social issues included in this study.

Similarly, the exposure of an organisation to greater sustainability risks increases as an organisation becomes larger and is subjected to more scrutiny by a wider range of stakeholders in relation to its sustainability performance. This is supported by prior findings that larger organisations are associated with greater likelihood of engaging sustainability assurance (Moroney et al. 2012). Prior research also suggests that organisation size is positively related to the extent of investment in the IAF and the IAF's governance role within the organisation (Sarens et al. 2012a). The control variable *ORGSIZE*, measured as the log of total assets, is therefore included in the specified models and is expected to be positively associated with the extent of IAF involvement in sustainability assurance and consulting.

Finally, the external auditor type is included as a control variable (*BIG4*) measured as 1 if the organisation engages a Big-4 auditor, and 0 otherwise. This control variable is included in the analysis as it is expected that organisations that engage a Big-4 auditor place greater importance on the value of comprehensive assurance services and risk management (Beasley et al. 2005). It is also possible that in organisations that engage Big-4 auditors, the audit committee and the board rely primarily on the external auditor in relation to financial reporting assurance, thereby allowing the IAF to incorporate assurance and consulting activities in developing areas of operational and strategic interest, including in relation to sustainability matters, into their annual work plans.

3.5 Results and discussion

Descriptive results

Table 3.3 presents descriptive statistics of the test and control variables. Overall, respondent IAFs reported greater involvement in relation to social issues relative to environmental areas. They also reported higher involvement in assurance activities over environmental (62% reported involvement with *ENVASSURE* mean = 3.70 percent of annual work plan) and social issues (60% reported involvement with *SOCASSURE* mean = 3.80 percent) compared to consulting activities (33% reported involvement in environmental and social consulting with *ENVCONSULT* mean = 0.94 percent and *SOCCONSULT* mean = 1.14 percent). The higher involvement in assurance over consulting activities was statistically significant for both environmental (Wilcoxon signed-rank test, $z=6.512$, $p<0.001$) and social (Wilcoxon signed-rank test, $z=4.933$, $p<0.001$) areas.

IAFs have been in existence within their organisations for 14.35 years on average. 70 percent of respondent IAFs were either co-sourced (63 respondents) or outsourced (7 respondents), with an average annual budget of \$1.69 million. The mean value of 0.50 for *ACOVISIGHT* suggests that the audit committee is perceived to have, on average, equal oversight responsibility for the IAF relative to senior management. This is consistent with Abbott et al.'s (2010) finding and suggests that measuring audit committee versus management oversight by a dichotomous variable may be inadequate. Perceived support from senior management for IAF involvement in sustainability

assurance was higher (mean score of 3.70 on a scale of 1 to 5) than for consulting (mean = 3.30) and statistically significant (Wilcoxon signed-rank test, $z=6.178$, $p<0.001$). 27 percent of respondent IAFs report directly to a sustainability committee (chairperson) in relation to sustainability engagements.

Table 3.3 Descriptive statistics

| Variable* | Mean | Std. Dev. | Min | Max |
|---------------------------------|----------|-----------|------|------------|
| Dependent variables: | | | | |
| <i>ENVASSURE</i> | 0.04 | 0.06 | 0.00 | 0.50 |
| <i>ENVCONSULT</i> | 0.01 | 0.02 | 0.00 | 0.10 |
| <i>SOCASSURE</i> | 0.04 | 0.05 | 0.00 | 0.28 |
| <i>SOCCONSULT</i> | 0.01 | 0.03 | 0.00 | 0.15 |
| Governance factors | | | | |
| <i>ACOVISIGHT</i> | 0.50 | 0.17 | 0.00 | 1.00 |
| <i>MGTSUPASSR</i> | 3.70 | 0.85 | 2.00 | 5.00 |
| <i>MGTSUPCONSULT</i> | 3.30 | 0.90 | 1.00 | 5.00 |
| <i>SUSCOMMREP</i> | 0.27 | 0.45 | 0.00 | 1.00 |
| IAF characteristics | | | | |
| <i>IAFSTRUC</i> | 0.70 | 0.46 | 0.00 | 1.00 |
| <i>IAFAGE</i> | 14.35 | 14.87 | 0.25 | 100.00 |
| Sustainability practices | | | | |
| <i>ENVREP</i> | 1.67 | 2.08 | 0.00 | 6.00 |
| <i>ENVEXASSR</i> | 1.64 | 2.26 | 0.00 | 6.00 |
| <i>SOCREP</i> | 2.90 | 2.52 | 0.00 | 9.00 |
| <i>SOCSEXASSR</i> | 1.32 | 2.05 | 0.00 | 9.00 |
| Control variables | | | | |
| <i>SENSINDUS</i> | 0.23 | 0.42 | 0.00 | 1.00 |
| <i>ORGSIZE</i> (\$ millions) | 6,817.68 | 15,800.22 | 0.03 | 100,000.00 |
| <i>BIG4</i> | 0.57 | 0.50 | 0.00 | 1.00 |

* Refer to Table 3.2 for variable definitions

23 percent of respondent organisations operate within sensitive industries (materials, industrials and utilities), and 57 percent are externally audited by a Big-4 auditor. Average total assets for organisations within the sample is \$6.8 billion.

The mean number of issues externally reported by the sample organisations is 1.67 for environmental issues (representing 28 percent of the six environmental issues included in the survey) and 2.90 for social issues (32 percent of the nine social issues included in the survey). Respondent organisations reported greater use of external assurance providers for environmental issues compared to social issues with, on average, 27.3 percent of environmental issues and 14.7 percent of social issues externally assured.

Table 3.4 Pearson pairwise correlations

Panel A: Model 1 (ENVASSURE)

| | ENVASSURE | ACOVISIGHT | MGT SUPASSR | SUSCOMMREP | IAFSTRUC | IAFAGE | ENVREP | ENVEXASSR | SENSINDUS | ORGSIZE | BIG4 |
|-------------|-----------|------------|-------------|------------|----------|--------|---------|-----------|-----------|---------|------|
| ENVASSURE | 1.00 | | | | | | | | | | |
| ACOVISIGHT | -0.03 | 1.00 | | | | | | | | | |
| MGT SUPASSR | 0.22** | 0.06 | 1.00 | | | | | | | | |
| SUSCOMMREP | 0.20** | -0.04 | 0.13 | 1.00 | | | | | | | |
| IAFSTRUC | 0.12 | -0.33*** | 0.14 | -0.04 | 1.00 | | | | | | |
| IAFAGE | 0.16 | 0.09 | 0.22** | 0.08 | 0.16 | 1.00 | | | | | |
| ENVREP | 0.37*** | -0.14 | 0.15 | 0.29*** | -0.08 | 0.06 | 1.00 | | | | |
| ENVEXASSR | 0.08 | -0.08 | 0.18* | 0.20** | 0.15 | -0.06 | 0.39*** | 1.00 | | | |
| SENSINDUS | 0.37*** | 0.09 | -0.09 | 0.15 | -0.01 | -0.09 | 0.29*** | 0.24** | 1.00 | | |
| ORGSIZE | 0.13 | 0.11 | 0.05 | 0.21** | 0.06 | 0.25** | 0.08 | 0.16 | 0.15 | 1.00 | |
| BIG4 | 0.20** | 0.13 | -0.04 | 0.26** | -0.08 | 0.02 | 0.20** | 0.22** | 0.38*** | 0.28*** | 1.00 |

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Panel B: Model 2 (ENVCONSULT)

| | ENVCONSULT | ACOVISIGHT | MGT SUPCONSULT | SUSCOMREP | IAFSTRUC | IAFAGE | ENVREP | ENVEXASSR | SENSINDUS | ORGSIZE | BIG4 |
|----------------|------------|------------|----------------|-----------|----------|--------|---------|-----------|-----------|---------|------|
| ENVCONSULT | 1.00 | | | | | | | | | | |
| ACOVISIGHT | -0.03 | 1.00 | | | | | | | | | |
| MGT SUPCONSULT | 0.27*** | 0.18* | 1.00 | | | | | | | | |
| SUSCOMREP | 0.11 | -0.04 | 0.02 | 1.00 | | | | | | | |
| IAFSTRUC | 0.10 | -0.33*** | 0.03 | -0.04 | 1.00 | | | | | | |
| IAFAGE | -0.02 | 0.09 | 0.14 | 0.08 | 0.16 | 1.00 | | | | | |
| ENVREP | 0.20** | -0.14 | -0.10 | 0.29*** | -0.08 | 0.06 | 1.00 | | | | |
| ENVEXASSR | 0.07 | -0.08 | -0.02 | 0.20** | 0.15 | -0.06 | 0.39*** | 1.00 | | | |
| SENSINDUS | 0.11 | 0.09 | -0.25** | 0.15 | -0.01 | -0.09 | 0.29*** | 0.24** | 1.00 | | |
| ORGSIZE | 0.08 | 0.11 | -0.13 | 0.21** | 0.06 | 0.25** | 0.08 | 0.16 | 0.15 | 1.00 | |
| BIG4 | 0.31*** | 0.13 | -0.10 | 0.26** | -0.08 | 0.02 | 0.20** | 0.22** | 0.38*** | 0.28*** | 1.00 |

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Panel C: Model 3 (SOCASSURE)

| | SOCASSURE | ACOVISIGHT | MGTSUPASSR | SUSCOMMREP | IAFSTRUC | IAFAGE | SOCREP | SOCEXASSR | SENSINDUS | ORGSIZE | BIG4 |
|------------|-----------|------------|------------|------------|----------|--------|--------|-----------|-----------|---------|------|
| SOCASSURE | 1.00 | | | | | | | | | | |
| ACOVISIGHT | -0.04 | 1.00 | | | | | | | | | |
| MGTSUPASSR | 0.32*** | 0.06 | 1.00 | | | | | | | | |
| SUSCOMMREP | 0.12 | -0.04 | 0.13 | 1.00 | | | | | | | |
| IAFSTRUC | 0.17* | -0.33*** | 0.14 | -0.04 | 1.00 | | | | | | |
| IAFAGE | 0.41*** | 0.09 | 0.22** | 0.08 | 0.16 | 1.00 | | | | | |
| SOCREP | 0.22** | -0.35*** | 0.02 | 0.03 | 0.19* | -0.05 | 1.00 | | | | |
| SOCEXASSR | 0.16 | -0.24** | 0.11 | 0.18* | 0.15 | -0.05 | 0.10 | 1.00 | | | |
| SENSINDUS | 0.14 | 0.09 | -0.09 | 0.15 | -0.01 | -0.09 | -0.04 | 0.11 | 1.00 | | |
| ORGSIZE | -0.06 | 0.11 | 0.05 | 0.21** | 0.06 | 0.25** | -0.16 | -0.02 | 0.15 | 1.00 | |
| BIG4 | 0.02 | 0.13 | -0.04 | 0.26** | -0.08 | 0.02 | -0.00 | 0.09 | 0.38*** | 0.28*** | 1.00 |

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Panel D: Model 4 (SOCCONSULT)

| | SOCCONSULT | ACOVISIGHT | MGTSUPCONSULT | SUSCOMMREP | IAFSTRUC | IAFAGE | SOCREP | SOCEXASSR | SENSINDUS | ORGSIZE | BIG4 |
|---------------|------------|------------|---------------|------------|----------|--------|--------|-----------|-----------|---------|------|
| SOCCONSULT | 1.00 | | | | | | | | | | |
| ACOVISIGHT | -0.10 | 1.00 | | | | | | | | | |
| MGTSUPCONSULT | 0.28*** | 0.18* | 1.00 | | | | | | | | |
| SUSCOMMREP | 0.07 | -0.04 | 0.02 | 1.00 | | | | | | | |
| IAFSTRUC | 0.05 | -0.33*** | 0.03 | -0.04 | 1.00 | | | | | | |
| IAFAGE | 0.04 | 0.09 | 0.14 | 0.08 | 0.16 | 1.00 | | | | | |
| SOCREP | 0.01 | -0.35*** | -0.06 | 0.03 | 0.19* | -0.05 | 1.00 | | | | |
| SOCEXASSR | -0.02 | -0.24** | 0.05 | 0.18* | 0.15 | -0.05 | 0.10 | 1.00 | | | |
| SENSINDUS | 0.03 | 0.09 | -0.25** | 0.15 | -0.01 | -0.09 | -0.04 | 0.11 | 1.00 | | |
| ORGSIZE | 0.09 | 0.11 | -0.13 | 0.21** | 0.06 | 0.25** | -0.16 | -0.02 | 0.15 | 1.00 | |
| BIG4 | 0.19* | 0.13 | -0.10 | 0.26** | -0.08 | 0.02 | -0.00 | 0.09 | 0.38*** | 0.28*** | 1.00 |

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 3.4 presents the correlation matrices for the variables used in the specified models. The correlations between independent variables in the specified models are relatively low, with the highest significant Pearson correlation of 0.39 between *ENVREP* and *ENVEXASSR*. Variance inflation factors (VIF) for each independent variable were calculated to ensure that multicollinearity between the independent variables, which might affect the analyses, is not an issue in the specified models. The mean VIF score for each specified model ranged from 1.22 to 1.29, with the highest VIF being 1.45, well below the rule of thumb of 10 commonly applied in testing for multicollinearity (O'Brien 2007).

3.5.1 Regression results

Table 3.5 presents the results of the regression models. Various factors are associated with the extent of internal audit's involvement in environmental and social assurance and consulting activities, although they do not apply uniformly across environmental and social areas and type of internal audit activity (assurance versus consulting). The results provide support for hypotheses H2, H5 and H6 as discussed below.

3.5.1.1 Governance factors

Audit committee oversight of the IAF relative to management is found to be negatively associated with the extent of internal audit's involvement in providing consulting services on social issues (*ACOVISIGHT* coefficient = -1.415 , p -value = 0.029 in Model 4) only. This suggests that IAFs with greater oversight by the audit committee relative to management are less involved in providing consulting services on social issues. The results therefore do not support H1. This is likely attributable to greater management awareness of the non-financial, particularly social risks, and the IAF's role in responding to these risks by undertaking greater consulting work in improving organisational performance in these areas. These results also support the finding from Sarens and De Beelde (2006a) that IAFs that engage more actively with management are more likely to be involved in more consulting activities, including on an ad hoc basis.

With the exception of internal audit's involvement in consulting over social issues being associated with higher levels of management oversight over the IAF relative to the audit committee noted above, we do not find any evidence of association between audit committee oversight and the extent of internal audit's involvement in environmental and social areas. This suggests that audit committee and management generally do not have competing claims on internal audit resources (Abbott et al. 2010) in relation to IAF involvement in sustainability areas. This is aligned with the recent finding that audit committees are increasingly performing an expanded role in risk management and value-creation within organisations (Martinov-Bennie et al. 2015), resulting in converging interests with management, particularly in relation to managing sustainability risks. Within this context, audit committee oversight of the IAF relative to management appears to be of

less relevance in determining the nature and focus of internal audit's activities as the audit committee and management are likely to have similar incentives in directing the IAF to undertake assurance work in responding to environmental risks and consulting work in contributing to improvements in the organisation's sustainability performance.

The results indicate that senior management support is significantly positively associated with the extent of IAF's assurance and consulting over environmental and social issues across all four models, thus supporting H2. This is consistent with prior studies' findings of the importance of senior management support in facilitating internal audit's involvement in areas outside of traditional assurance activities (Sarens & De Beelde 2006a), such as in enterprise risk management initiatives (Beasley et al. 2005). This relationship between senior management support and internal audit's activities and their expansion into new areas such as environmental and social assurance and consulting would benefit from further research, particularly in investigating the ways in which internal audit obtains such support.

The results do not support the expectation in H3 that IAF reporting to the sustainability committee in relation to its sustainability work is positively associated with the extent of internal audit's involvement in assurance or consulting over environmental and social issues. The finding that IAF reporting to the sustainability committee is not associated with the extent of the internal audit's involvement in sustainability assurance and consulting complements suggestions by Peters and Romi (2015) that the mere existence of a sustainability committee is inadequate to drive the adoption of sustainability assurance, and that specific expertise within the committee may need to be considered. The result also adds support to recent research findings that sustainability committees tend to perform a symbolic function with limited inclination to substantively improve the organisation's sustainability performance (Rodrigue, Magnan & Cho 2013; Peters & Romi 2015).

3.5.1.2 IAF characteristics

We find no statistically significant association between outsourced and co-sourced functions and the extent of IAF involvement in environmental and social assurance and consulting. H4 is therefore not supported. To test whether the extent of outsourcing affected this result, we replaced *IAFSTRUC* with a variable measuring the number of full-time equivalent outsourced personnel in the IAF. The results in all models remained consistent, indicating that the extent of outsourcing was not related to the level of internal audit's involvement in sustainability assurance and consulting. While we expected that co-sourced and outsourced IAFs are able to draw on their access to wider expertise, it is possible that the expertise represented in respondent outsourced service providers may not be specific to assurance or consulting over environmental or social issues. Future research may employ more refined measures of external expertise co-opted within the IAF, or alternative research methods to further investigate this.

Table 3.5 Regression results

| Panel A: Environmental assurance and consulting models | | | | | |
|--|---------------|------------------------------|-------------|-------------------------------|-------------|
| Independent variable* | Expected sign | Model 1: <i>ENVASSURE</i> | | Model 2: <i>ENVCONSULT</i> | |
| | | Coefficient estimate | z-statistic | Coefficient estimate | z-statistic |
| <i>ACOVISIGHT</i> | + | −0.128 | −0.37 | −0.377 | −0.76 |
| <i>MGTSUPASSR</i> | + | 0.175 | 2.55 ** | | |
| <i>MGTSUPCONSULT</i> | + | | | 0.327 | 5.20 *** |
| <i>SUSCOMMREP</i> | + | 0.086 | 0.67 | −0.010 | −0.06 |
| <i>IAFAGE</i> | + | 0.004 | 1.19 | −0.006 | −1.83 * |
| <i>IAFSTRUC</i> | + | 0.210 | 1.24 | 0.235 | 1.41 |
| <i>ENVREP</i> | + | 0.084 | 2.07 ** | 0.058 | 1.71 * |
| <i>ENVEXASSR</i> | +/− | −0.050 | −1.28 | −0.046 | −1.29 |
| <i>SENSINDUS</i> | + | 0.461 | 3.98 *** | 0.137 | 0.95 |
| <i>BIG4</i> | + | 0.138 | 1.04 | 0.630 | 3.08 ** |
| <i>ORGSIZE</i> | + | −0.004 | −0.19 | 0.041 | 0.90 |
| Intercept | | −2.928 | −8.59 *** | −4.247 | −10.25 *** |
| Pseudo R^2 | | 0.088 | | 0.103 | |
| Observations | | 100 | | 100 | |

| Panel B: Social assurance and consulting models | | | | | |
|---|---------------|------------------------------|-------------|-------------------------------|-------------|
| Independent variable* | Expected sign | Model 3: <i>SOCASSURE</i> | | Model 4: <i>SOCCONSULT</i> | |
| | | Coefficient estimate | z-statistic | Coefficient estimate | z-statistic |
| <i>ACOVISIGHT</i> | + | 0.038 | 0.11 | −1.415 | −2.18 ** |
| <i>MGTSUPASSR</i> | + | 0.177 | 3.32 ** | | |
| <i>MGTSUPCONSULT</i> | + | | | 0.371 | 4.37 *** |
| <i>SUSCOMMREP</i> | + | 0.129 | 1.05 | 0.060 | −0.33 |
| <i>IAFAGE</i> | + | 0.012 | 4.21 *** | −0.001 | −0.41 |
| <i>IAFSTRUC</i> | + | 0.085 | 0.62 | 0.050 | 0.24 |
| <i>SOCREP</i> | + | 0.051 | 2.44 ** | −0.010 | −0.41 |
| <i>SOCSEXASSR</i> | +/− | 0.0233 | 0.90 | −0.071 | −1.35 |
| <i>SENSINDUS</i> | + | 0.416 | 3.40 ** | 0.142 | 0.81 |
| <i>BIG4</i> | + | −0.171 | −1.38 | 0.451 | 2.44 ** |
| <i>ORGSIZE</i> | + | −0.049 | −2.43 ** | 0.049 | 1.03 |
| Intercept | | −2.646 | −8.53 | −3.516 | −7.40 |
| Pseudo R^2 | | 0.073 | | 0.085 | |
| Observations | | 100 | | 100 | |

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

*Refer to Table 3.2 for variable definitions

The results indicate that the maturity of the IAF is positively associated with the extent of internal audit's involvement in social assurance activities (*IAFAGE* coefficient = 0.012, *p*-value = 0.000 in Model 3), thus providing partial support for H5. However, IAF maturity was also found to be marginally negatively associated with the extent of internal audit's consulting activities over environmental issues (*IAFAGE* coefficient = -0.006, *p*-value = 0.067 in Model 2). This result indicates that relatively younger IAFs are more likely to have greater involvement in consulting over environmental issues. This may be indicative of these IAFs undertaking a greater advisory role in designing and implementing systems and controls in relation to these issues earlier in their lifecycle prior to transitioning to taking on a greater assurance role as they mature (Nieuwlands 2007; Deloitte 2011).

Where previous research has found that older IAFs are more likely to be involved with social and sustainability audits (Sarens et al. 2011) when jointly considered, the current results extend this finding in that this relates only to social assurance activities of sustainability audits. The reasons for this divergence between the IAF's involvement in providing assurance on social and environmental issues is an area worthy of further research. We also note that the use of the IAF's age, or the length of time that the IAF has been in place within the organisation as a measure of IAF maturity in the current study, while consistent with prior research (Arena & Azzone 2007; Sarens et al. 2011), is not a perfect proxy for IAF maturity. While age is likely to be correlated with IAF maturity, we expect the maturity of the IAF to be more complex in practice (Abdolmohammadi, D'Onza & Sarens 2016), with several contributing factors, such as the practices and processes of the function, including its relationships and interactions with its stakeholders (e.g. see IIA 2013d). Future research may employ more refined measures of IAF maturity, or other specific aspects that contribute to the IAF's maturity, in furthering our understanding of how this contributes to IAF practices and scope.

3.5.1.3 Organisational sustainability practices

IAF involvement in environmental and social assurance (*ENVREP* coefficient = 0.084, *p*-value = 0.039 in Model 1; *SOCREP* coefficient = 0.015, *p*-value = 0.015 in Model 3) and environmental consulting (*ENVREP* coefficient = 0.058, *p*-value = 0.087 in Model 2) is positively associated with the extent of the organisation's external reporting of sustainability information, thus supporting H6. This association is more significant for assurance activities (Models 1 and 3) relative to consulting activities (Model 2). This suggests that IAFs in organisations that externally report a relatively larger number of environmental and social issues have greater involvement in providing assurance on these issues. This is likely to be indicative of IAF assurance activities being utilised to add credibility to external reporting or for compliance-based assurance where environmental and social disclosures are mandated. The results also indicate that the level of external reporting of environmental issues is marginally positively associated with the extent of IAF involvement in

providing consulting services over this information. This potentially reflects internal audit's role in contributing to the design, implementation and continual improvement of the organisation's sustainability management system (Nieuwlands 2007).

The results indicate that the use of external assurers is not associated with the extent of internal audit's involvement in environmental and social assurance and consulting, and therefore reject H7. This may be indicative of external assurance providers having different focus in undertaking their work in sustainability areas compared to internal audit, for example, focusing specifically in relation to external sustainability reporting only. However, given the above finding in relation to external reporting of environmental and social issues, this lack of association between the use of external assurers and IAFs' involvement in these areas is worthy of further research investigating how assurance work in sustainability areas is allocated between different assurance providers, the extent to which this work overlaps or is performed collaboratively, and how collaborative approaches may be facilitated (Simnett et al. 2016).

3.5.1.4 Control variables

Operating in a sensitive industry is found to be positively associated with the extent of internal audit's involvement in environmental and social assurance activities (*SENSINDUS* coefficient = 0.461, *p*-value = 0.000 in Model 1 and coefficient = 0.416, *p*-value = 0.001 in Model 3). The magnitude of the coefficients suggest that industry is a key factor that is associated with the extent of IAF involvement in environmental and social assurance activities. This is consistent with findings of prior studies specifically examining environmental assurance (Peters & Romi 2015) and internal audit's involvement in these areas (Trotman & Trotman 2015).

Organisation size is only significantly negatively associated with the extent of IAFs' involvement providing assurance over social issues (*ORGSIZE* coefficient = -0.050, *p*-value = 0.015 in Model 3). While this result is contrary to our expectations, it is consistent with prior US research findings that larger organisations are significantly less likely to engage assurance services (Peters & Romi 2015), and that IAFs in larger organisations are less likely to play an active role in governance (Sarens et al. 2012a). The findings in the current study may also be indicative of smaller organisations being more responsive to employee and external stakeholders' interests and IAFs in these organisations undertaking a bigger role in social assurance.

The presence of a Big-4 auditor is positively associated with the extent of the IAF's involvement in consulting activities in relation to environmental (*BIG4* coefficient = 0.630, *p*-value = 0.002 in Model 2) and social (*BIG4* coefficient = 0.451, *p*-value = 0.015 in Model 4) areas. These results are consistent with the suggestion that the audit committee and the board in organisations that engage Big-4 auditors rely on the external auditor in relation to assurance on financial reporting,

allowing internal audit greater scope to incorporate consulting activities over non-financial areas into their work plan (Soh & Martinov-Bennie 2011).

3.5.2 Supplementary analyses and robustness checks

Supplementary exploratory analyses were conducted by including additional independent variables in the specified models to explore their association with the extent of internal audit's involvement in sustainability activities.

An additional variable measuring the annual IAF budget was included in the specified models to investigate its association with the extent of IAF involvement in sustainability activities. Prior research suggests that a better resourced IAF is associated with a stronger control environment and greater organisational awareness of the value of assurance, control and risk management (Sarens & Abdolmohammadi 2011). In the context of its involvement in sustainability activities, the size of the IAF annual budget is therefore potentially indicative of its resourcing and ability to include sustainability assurance and consulting activities within its work plan. No significant association was found between this additional variable and the IAF's sustainability activities in each of the models.

In view of the important oversight role of the audit committee over the IAF, variables measuring the proportion of independent audit committee members and audit committee members with financial expertise and industry experience were incorporated into the specified models to investigate the impact of these audit committee characteristics on the level of internal audit's involvement in sustainability assurance and consulting. Prior research suggests that independence of the audit committee promotes the independence and objectivity of the IAF, and independent audit committees with financial expertise are more likely to exercise active oversight over the IAF (Scarbrough, Rama & Raghunandan 1998; Raghunandan, Read & Rama 2001; Abbott, Parker & Peters 2004). It has also been suggested that audit committee industry experience is potentially important in facilitating the committee's communications with the IAF (Mat Zain & Subramaniam 2007). A negative association was found for audit committee financial expertise and the IAF's involvement in social consulting (Model 4) only. This result potentially reflects these audit committees' focus on financial information, in line with their relatively higher expertise in the area.

Further industry indicator variables were also added to the initial model to test for differences across industries. Results of the 2010 IIA Global Internal Audit Survey indicate that wholesale and retail industry respondents were most likely to report expectations of increased involvement in social and sustainability audits as well as increased participation in corporate governance reviews. Given the stringent corporate governance requirements in the financial sector relative to other

industries,¹⁰ it is likely that the internal audit and risk management function in organisations within the financial industry are more developed and therefore IAFs in these organisations may have greater involvement in sustainability activities. Indicator variables for the wholesale/retail trade industry and financial industry were therefore included in the specified models for testing. While no association was found for the wholesale/retail industry, the financial industry indicator variable was found to be significant and negatively associated with the extent of IAF involvement in consulting over environmental and social areas (Models 2 and 4) and assurance over environmental areas (Model 1), reflecting less involvement in these areas for IAFs in financial organisations.

To ensure that that our inferences discussed in the results above are robust to alternative approaches, we estimated the models using alternative regression approaches. Specifically, we estimated a linear model using ordinary least squares (OLS) and a Tobit model, as well as specifying alternative link functions (binomial and logistic) to the GLM-based fractional response variable model. The inferences from these alternative approaches are generally consistent, and the overall conclusions drawn remain unaffected, thus increasing our confidence in the inferences we have drawn.

3.6 Conclusion

This study investigates factors associated with the extent of internal audit's involvement in providing assurance and consulting services on sustainability information. We specifically examined the influence of governance factors, IAF characteristics and organisational sustainability practices on the extent of internal audit's involvement in environmental and social assurance and consulting.

Management support for IAF involvement in sustainability activities and external reporting of sustainability issues are found to be key factors associated with the level of IAF involvement in these areas. The results also suggest that audit committee oversight, IAF maturity, industry and the presence of a Big-4 auditor are associated with the level of IAF involvement in sustainability areas. However, the findings indicate that these factors examined do not apply uniformly across different types of sustainability issues (environmental versus social) and internal audit activity (assurance versus consulting). As the role of the IAF becomes increasingly varied, with greater emphasis being placed on the consulting aspect of its role (Sarens & De Beelde 2006b, 2006a; Soh & Martinov-Bennie 2011), these findings suggest that future research might benefit from taking a more nuanced approach to investigating different aspects of internal audit's roles and activities, both within the sustainability context and more broadly.

¹⁰ In Australia, for example, the financial services sector (including authorised deposit-taking institutions (banks), general insurance and life insurance, and friendly societies) is regulated by the Australian Prudential Regulatory Authority (APRA), which has issued specific pronouncements mandating the requirement for an independent and adequately resourced IAF unless an exemption has been granted.

The findings indicate that the IAF's relationship with management is a significant consideration in embedding sustainability and assurance activities within internal audit's scope. To the extent that internal audit involvement in these areas is indicative of a proactive IAF, these findings support the suggestion that management support for internal audit is a critical success factor for internal audit effectiveness (Cohen & Sayag 2010). Management's support for internal audit's involvement in sustainability areas is expected to increase its involvement through various means. Firstly, management has the ability to provide direct input into the internal audit annual work plan based on its risk and strategic priorities that may include sustainability areas. Secondly, management support for internal audit's involvement, specifically in sustainability areas, is also likely to be linked to greater resources made available for the IAF's efforts in these areas. Finally, management's support provides internal audit with the necessary authority to get involved in sustainability assurance and consulting, areas traditionally outside internal audit's scope (Sarens & De Beelde 2006c). In light of the evolving nature and focus of internal audit work, it would be useful for future research to investigate the means by which internal audit obtains management support to facilitate its expansion into emerging, non-traditional areas including in relation to broad sustainability matters.

The finding that the industry in which an organisation operates and external reporting of sustainability information are associated with internal audit's involvement in providing assurance on this information is suggestive of a level of isomorphism in internal audit's involvement in these areas being driven by mimetic and potentially coercive pressure (DiMaggio & Powell 1983) where mandatory disclosure requirements exist. The question of whether (and to what extent) IAFs' involvement in sustainability areas is decoupled from management systems in directing and improving sustainability operations is also one that would benefit from further research (Modell 2007).

In addition to undertaking more detailed examination of the relationship between the nature and extent of sustainability reporting by organisations and internal audit's involvement in these areas, investigation of the interface between internal audit and (different types of) external assurance providers in undertaking assurance over (specific) sustainability areas would be useful in furthering our understanding of the complementary versus substitution effect between these assurance providers in this context (Simnett & Huggins 2015). For example, it would be helpful to examine the extent to which users perceive that internal audit's involvement improves the credibility of reported sustainability information, and if this can substitute for external assurance in relation to (certain aspects of) externally reported sustainability information (IIRC 2015). The operationalisation of outsourcing and co-sourcing arrangements within the context of sustainability assurance engagements, and the nature and extent of oversight exercised by the IAF over external service providers (or vice versa), also requires more detailed investigation.

This study is subject to a number of limitations that need to be considered in interpreting its results. In particular, the use of a questionnaire survey method has inherent limitations, including potential question interpretation issues and response bias. Extensive pilot-testing of the survey instrument was undertaken to mitigate these issues as far as possible prior to its administration. Assurance of anonymity of respondents was also provided in the survey to mitigate potential social desirability bias. The study was also limited to a specific subset of the membership of the IIA in Australia. Prior research has reported differences in sustainability assurance practices across countries (Simnett et al. 2009b; Mori Junior et al. 2014). Caution should therefore be exercised in generalising the findings of this study.

The findings of this study support the need for further, more nuanced investigation of internal audit assurance and consulting practices in relation to specific sustainability issues. Future research may undertake more focused approaches to examining specific aspects of internal audit's involvement in sustainability assurance and consulting activities. For example, this study adopts a broad conception of internal audit's assurance and consulting roles to reflect the diverse range of these activities undertaken by internal auditors in practice (IIA 2009a). Future studies may examine more specific aspects of these roles, such as the level of assurance provided in these engagements, to further our understanding of the roles internal auditors play in these emerging, non-traditional areas of involvement.

Alternative research methods, such as interviews, would be useful in extending our understanding of the current study's findings (for example, examining why explanatory variables across different types of sustainability issues are different). The use of qualitative methods can facilitate in-depth investigations to add to our understanding of the conduct of sustainability assurance and consulting activities and processes involved in these engagements. Finally, future research may examine the applicability of the findings reported in this study across different institutional and geographical settings.

The results of the study have implications for research, practice and policy. The findings provide initial evidence that future research may continue to build upon in investigating internal audit's role in sustainability assurance and consulting. In relation to practice, the findings provide insights to stakeholders interested in enhancing and embedding internal audit's sustainability assurance and consulting practices within organisations. The results also have implications for policy makers and external assurance providers in considering and developing combined assurance models, by shedding light on factors associated with the extent of sustainability assurance and consulting work undertaken by IAFs.

3.7 References

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Chapter 4

Paper 3 – The dynamics of internal audit's involvement in environmental, social and governance assurance and consulting

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The dynamics of internal audit's involvement in environmental, social and governance assurance and consulting

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4.1 Abstract

This study examines the dynamics surrounding involvement of internal audit functions in environmental, social and governance (ESG) assurance and consulting. In light of growing international evidence that internal auditors are taking on greater assurance and consulting roles in these areas, we utilise semi-structured interviews with chief audit executives and internal audit service provider partners to specifically investigate strategies employed by internal auditors in embedding their involvement in new, ESG areas in which they have not been traditionally engaged. The results support internal audit's increasing involvement in non-financial areas. This is driven primarily by greater awareness and sensitivity of senior management and the board to broader non-financial risks faced by their organisations, as a result of the changing regulatory environment and stakeholder demands, and the need to manage these risks. Internal auditors draw on various strategies to embed their involvement in ESG areas. These include mobilising discourses of regulatory mandates and reputational impact, expertise, support from internal stakeholders through consultation and transparency, and the consulting aspect of internal audit's role. These findings provide insights into strategies internal auditors can employ in enabling their involvement in new non-traditional areas of assurance and consulting.

4.2 Introduction

The global business environment has undergone significant change in the last decade. In the aftermath of major corporate collapses and the global financial crisis brought about by excessive risk-taking, organisations face greater scrutiny by regulators, investors, customers and wider stakeholders (Davies et al. 2010). This has contributed to increased emphasis on corporate governance, internal control and risk management (Power 2003; 2007) as well as growing demand for greater accountability through expanded corporate reporting encompassing matters beyond the organisation's financials (Simnett et al. 2009b). Within this context, there is increasing evidence of internal audit's rising prominence as a key governance and assurance mechanism and its evolving role and shifting emphasis towards non-financial matters (Darnall et al. 2009; Jones & Solomon 2010; Allegrini et al. 2011; Protiviti & IIA-Australia 2011; Soh & Martinov-Bennie 2011; Soh & Martinov-Bennie 2015; Trotman & Trotman 2015).

Internal audit occupies a unique space within organisations, providing it with the opportunity to drive better governance and risk management. Where previously “thought of as an adjunct to the statutory auditing process”, the internal audit function (IAF) has come into its own in recent times with new organisational authority as risk experts (Power 2007, p.56). The IAF is now either mandated or (implicitly) recommended as a key feature of the risk management framework across major stock exchanges internationally. In Australia, the IAF's role in risk management was given greater prominence in the most recent revision of the Australian Securities Exchange Corporate Governance Council's Principles and Recommendations in 2014 with Recommendation 7.3 now requiring listed organisations to disclose the existence, structure and roles of the IAF, or in the absence of an IAF, the processes used to evaluate and improve internal control and risk management effectiveness (ASX CGC 2014).

Emerging academic and practitioner literature, as well as professional standards and corporate governance codes, point to internal audit's increasing involvement in ESG areas, across broad sustainability areas (Nieuwlands 2007; IIA 2008; Darnall et al. 2009; Jones & Solomon 2010; IIA 2010c; Deloitte 2011; Ridley et al. 2011; IIA 2013c; Soh & Martinov-Bennie 2015; Ramamoorti & Siegfried 2016) and a diverse range of specific issues such as greenhouse gas emissions (Trotman & Trotman 2015), health and safety (Blewett & O'Keeffe 2011), third party risks (IIA 2009b; Tabuena 2013), risk culture (PwC 2009) and ethics (IIA 2012c).

Despite the acknowledged potential for internal audit's involvement to drive improvement in ESG performance and reporting (Nieuwlands 2007; Deloitte 2011; IIA 2013c; CIIA 2015), there is a paucity of research investigating this subject. This study aims to address this gap by examining the nature of internal audit's expansion into ESG areas. In particular, the study focuses on strategies employed by internal auditors to secure support from internal stakeholders in embedding their participation in ESG areas, which are becoming increasingly important to organisations and their

boards (Kend 2015; Peters & Romi 2015; Trotman & Trotman 2015). Given the potential for theoretical pluralism to provide richer insights into governance phenomena (Roberts, McNulty & Stiles 2005; Brennan & Solomon 2008; Cohen et al. 2008; Christopher 2010; Ratnatunga & Alam 2011) and sustainability assurance (Hahn & Kühnen 2013; Cohen & Simnett 2015; Trotman & Trotman 2015), this study employs a multi-theoretical approach to investigating internal audit's (a governance mechanism) involvement in its ESG-related roles (including sustainability assurance).

This research is timely in light of the increasing trend in sustainability reporting and assurance and questions being raised about the quality and credibility of these practices (Mori Junior et al. 2014; Cohen & Simnett 2015; KPMG 2015) and acknowledgement of the potentially important role of internal audit in influencing the adoption of sustainability assurance (O'Dwyer et al. 2011). Within the current corporate reporting context of integrated reporting (IR) gaining wider recognition, the capacity for internal audit to undertake various roles across the implementation and production of IR has also been noted (IIA 2013c, 2015b). Indeed, it has been suggested that internal audit will be the 'glue' (Druckman 2013) in promoting wider adoption of IR through "leveraging its 'seat at the table'" (IIA 2013e, p.2) to overcome the main challenges in embedding core IR concepts and principles within organisations (IIA 2015b).

This study also responds to calls for research to examine the back stage of assurance practice (Power 2003), and practical implementations of audit practices (Robson et al. 2007) through fieldwork and greater engagement with practitioners (Power 2007). The study complements and extends prior research on external assurance providers' expansion into new domains (Free, Salterio & Shearer 2009; O'Dwyer et al. 2011) by investigating the internal audit context. By examining internal audit processes employed to expand into providing assurance and consulting in 'new' areas in which they have not been traditionally involved, the study also contributes to better understanding of how combined assurance programs (IoDSA 2009, 2016) over ESG matters¹¹ may be more effectively developed and implemented, including enhancing coordination between internal and external assurance providers to minimise assurance gaps (Decaux & Sarens 2015; Huibers 2015).

The remainder of the paper is organised as follows. Section 4.3 reviews the existing literature on internal audit's evolving role in ESG areas, outlines relevant theoretical perspectives and specifies the study's research questions. Section 4.4 details the research method, which includes interviews with chief audit executives (CAEs) and providers of internal audit services. Section 4.5 presents and analyses the results of the study. Finally, Section 4.6 discusses the findings of the research and their implications, and provides directions for future research.

¹¹ The term 'ESG' is used synonymously with 'non-financial' and 'sustainability' in this paper to refer to environmental, social and governance issues broadly. This is consistent with literature in this area (e.g. Simnett, Vanstraelen and Chua (2009b) , Cohen and Simnett (2015) , practice (e.g. GRI (2013b) , KPMG (2015) and corporate governance codes internationally (e.g. King III Code in South Africa).

4.3 Literature review, theoretical framework and research questions

The practice and scope of ESG reporting has grown significantly in recent years in response to wider stakeholder accountability demands, increasing regulatory requirements (Moroney et al. 2012), recognition of the inadequacies of traditional financial reporting in portraying an organisation's value and performance (Simnett et al. 2009b) and in facilitating internal and external decision making (IIRC 2011b). This growth in ESG reporting has been accompanied by demand for assurance to improve the credibility of this information (Simnett et al. 2009b; Moroney et al. 2012; Cohen & Simnett 2015; KPMG 2015). The benefits of engaging assurance on sustainability reporting are reported to be manifold, with the Global Reporting Initiative (2013a, pp. 6–7) citing the following benefits:

- increased recognition, trust and credibility of sustainability reports (particularly for investment and rating decisions),
- reduced risk and increased quality, value and use of sustainability reports externally and internally,
- increased Board and CEO level engagement as a result of increased prominence of sustainability issues in driving improvements in organisational strategy, performance and reputation,
- improved internal reporting and management systems, including controls, and
- enhanced stakeholder communication and engagement.

There has been a steadily growing stream of research examining external sustainability assurance practices. Research in the area has examined a broad range of issues, including the decision to engage assurance services (at the market and organisational level) and/or choice of the type of assurance provider (and assurance standards) engaged (Park & Brorson 2005; Perego 2009; Simnett et al. 2009b; Jones & Solomon 2010; Martinov-Bennie et al. 2012; Perego & Kolk 2012; Mori Junior et al. 2014; Kend 2015; Peters & Romi 2015), outcomes and benefits of assurance engagements (O'Dwyer & Owen 2005; Ballou et al. 2012; Moroney et al. 2012; Casey & Grenier 2015), aspects of the conduct of assurance engagements (Edgley et al. 2010; Manetti & Toccafondi 2012) and processes in constructing and embedding sustainability assurance practices (O'Dwyer 2011; O'Dwyer et al. 2011).

Relative to the growing body of academic literature examining various aspects of external assurance over sustainability reporting, there has been a paucity of research investigating internal auditors' practices in providing assurance and consulting in these areas. Nevertheless, there is growing recognition of the importance of internal audit's role in organisational governance and evidence of greater reliance being placed on the IAF by audit committees and management (Sarens & De Beelde 2006c; Sarens et al. 2009; Jones & Solomon 2010; Soh & Martinov-Bennie 2011;

Sarens et al. 2013; Martinov-Bennie et al. 2015; Trotman & Trotman 2015). Given the importance of ESG information for management operational and strategic decision making, and the unique position of the IAF within the organisation and its transition to undertaking a more strategic approach to its role, the capacity for internal audit to improve the reliability of ESG information has been acknowledged (Deloitte 2011; Druckman 2013; IIRC 2013; IIA 2013c).

Recent internal audit research and professional literature indicate that the nature of internal auditing is changing with shifting emphasis from financial to ESG information such that a large proportion (79%) of internal audit work plan time is now devoted to non-financial areas (Protiviti & IIA-Australia 2011; Soh & Martinov-Bennie 2011) with expectations that the key focus areas for internal audit in coming years will include corporate governance reviews and audits of enterprise risk management processes, ethics and social and sustainability issues (Allegrini et al. 2011). The increasing importance and engagement of internal audit in ESG areas is also evidenced by the proliferation of ESG-related practice guides issued by the IIA in recent years, including *Evaluating Corporate Social Responsibility/Sustainable Development* (IIA 2010c) and several other specific subject-matter guides such as those on auditing external business relationships (IIA 2009b), privacy risks (IIA 2012b) and ethics-related program and activities (IIA 2012c).

While there are limited studies devoted to detailed examination of internal audit's (potential) involvement in sustainability areas (Ridley et al. 2011; Soh & Martinov-Bennie 2015; Trotman & Trotman 2015), there are a number of studies that provide evidence of internal audit's current involvement in broad sustainability areas (Ballou et al. 2012; Peters & Romi 2015), as well as more specific areas, such as workplace health and safety (Blewett & O'Keeffe 2011; Robson et al. 2012), environmental (Paape et al. 2003; Darnall et al. 2009; Jones & Solomon 2010) or greenhouse gas and energy reporting (Trotman & Trotman 2015). Indeed, Peters and Romi (2015, p.187) in their recent study on sustainability report assurance in the US report that "internal audit services are the most prevalent source of sustainability assurance services".

A key area for internal audit to complement external assurance is in contributing to improvements in governance, risk management and controls over sustainability risks and information systems (Cohen & Simnett 2015) by drawing on their consulting roles (Nieuwlands 2007; IIA 2013c; 2015a, 2015b). However, prior studies have generally only referred to the assurance role of the IAF and have not directly considered the consulting aspect of internal audit's role. The dichotomy between the internal audit's assurance and consulting roles is of particular interest given recent studies reporting expectations of the increasing importance of the consulting aspect (Stewart and Subramaniam 2010; Soh and Martinov-Bennie 2011). This study therefore builds on this prior research by examining this dichotomy.

It has also been noted that internal assurance has the potential to either complement or dispense with the need for external assurance over certain sustainability areas (Cohen & Simnett 2015;

Simnett & Huggins 2015) as a ‘cost effective and value-adding alternative to external CSR assurance’ (Ackers & Eccles 2015, p.533). Qualitative research examining assurance over ESG issues also reveals a preference of audit committee members for assurance provided by internal audit over that provided by external assurance providers and a desire to minimise duplication across assurance efforts (Jones & Solomon 2010; Soh & Martinov-Bennie 2011; Trotman & Trotman 2015). In light of ongoing developments in corporate reporting to integrate ESG information with financial reporting, and efforts to develop combined assurance programs (Decaux & Sarens 2015), it is useful to gain an understanding of factors driving internal audit’s involvement in ESG areas and the means by which internal auditors expand and embed their involvement in these new areas.

4.3.1 Theoretical framework

Consistent with prior research on governance phenomena (Cohen, Krishnamoorthy & Wright 2007; Brennan & Solomon 2008; Cohen et al. 2008; Beasley, Carcello, Hermanson & Neal 2009; Cohen, Krishnamoorthy & Wright 2010) and sustainability reporting and assurance (Hahn & Kühnen 2013; Trotman & Trotman 2015; Haji & Anifowose 2016), we use multiple theories (agency theory, stakeholder theory, legitimacy theory, resource dependency theory) as an analytical lens to provide alternative insights into internal audit’s involvement in providing assurance and consulting on ESG areas. The underlying basis for each theory and its applicability to the internal audit context is briefly outlined below.

Agency theory, as the dominant theory applied to governance research, is concerned with realigning the conflict of interest arising as a result of the separation of ownership and control by implementing appropriate monitoring and control governance mechanisms (Jensen & Meckling 1976; Eisenhardt 1989). Within the internal audit context, agency theory would posit that the IAF is used as a monitoring mechanism to curb management opportunism and ensure that management actions are aligned with shareholders’ interests. It has been argued that assumptions made within agency theory provide a limited approach to governance research by neglecting accountabilities to wider stakeholders beyond shareholders, failing to recognise interdependencies between stakeholders and assuming universality without due regard for institutional variation (Christopher 2010). This has prompted calls for the use of more holistic governance research models by supplementing agency theory with alternative theories (Roberts et al. 2005; Christopher 2010; Perego & Kolk 2012; Brennan & Kirwan 2015; Cohen & Simnett 2015; Haji & Anifowose 2016). In responding to these calls for greater theoretical pluralism to further our understanding of governance phenomena in practice, we supplement agency theory with stakeholder theory, legitimacy theory and resource dependency theory.

Stakeholder theory takes into account the changing environment in which organisations operate and posits that organisations need to recognise and manage the interests of, and pressures from, its wider stakeholders (Freeman 1984; Donaldson & Preston 1995). While stakeholder theory has

been more commonly used in the sustainability reporting and assurance literature, the increasing focus on sustainability issues has seen a transition to greater use of stakeholder theory in the governance literature in place of the shareholder-centric approach to governance using agency theory (Christopher 2010). In the internal audit context, stakeholder theory would suggest internal audit functions as a governance mechanism to assist management and the board in discharging accountability to its wider stakeholders.

Legitimacy theory is generally framed in terms of strategic legitimacy theory, concerned with the ways in which organisations seek to obtain societal support, and institutional legitimacy theory, concerned with cultural pressures exerted on organisations through sector-wide structuration dynamics (Suchman 1995). Strategic legitimacy theory has been applied in the sustainability assurance literature at the organisational level to examine the process by which legitimacy is secured by assurance providers for these services (O'Dwyer et al. 2011), and would likewise be applicable in examining the legitimisation strategies employed by internal auditors in securing support for their involvement in new ESG areas. Institutional legitimacy theory, on the other hand, has been applied in the governance and sustainability assurance literature in investigating the ceremonial and symbolic functions of governance structures and in engaging sustainability assurance to obtain and maintain external organisational legitimacy (Cohen et al. 2008; Beasley et al. 2009; Kolk & Perego 2010; Perego & Kolk 2012; Brennan & Kirwan 2015) and is thus relevant in explaining the driving factors for internal audit's involvement in these new areas, for example, in securing external legitimacy for the organisation by providing assurance on regulatory and compliance requirements.

Resource dependency theory is concerned with the skills, knowledge and expertise that the board is able to equip itself with in order to respond to the complex environment and challenges faced by the organisation (Pfeffer 1972; Pfeffer & Salancik 1978; Boyd 1990). It emphasises the board's role in supporting the organisations and its management in responding to environmental uncertainties by formulating appropriate business strategies and obtaining access to appropriate resources. In the current context, this would include the resourcing and use of governance mechanisms such as the IAF to assist management in meeting the company's strategic and operational objectives (Cohen et al. 2008; Cohen et al. 2010), including in relation to ESG areas (Trotman & Trotman 2015).

Within this context, this study undertakes an in-depth investigation of the following two research questions.

1. What drives internal audit's involvement in ESG areas?
2. How do internal auditors embed their involvement in ESG areas within the organisation?

4.4 Method

Given the exploratory nature of this study, qualitative interviews are appropriate for obtaining an understanding of internal audit's involvement in ESG areas and the strategies adopted in enabling involvement in these areas. Semi-structured interviews were thus conducted with CAEs, senior internal auditors and service providers of internal audit services at the partner level. These participants were selected given their influential role in facilitating assurance practices in sustainability areas within the organisation (O'Dwyer et al. 2011; IIA 2013e; IIRC 2015) as well as their ability to influence the scope of internal audit's activities (Soh & Martinov-Bennie 2011).

Participants were initially recruited after they responded positively to an invitation contained in a survey for a broader research project examining internal audit's current role(s) and level of involvement in ESG assurance and consulting. A snowball sampling approach was subsequently used to recruit additional participants. No incentives were offered for participants' involvement. In total, 16 interviews were conducted, lasting between 30 and 90 minutes, with 14 participants (10 in-house senior internal auditors at the CAE or equivalent level and four outsourced internal audit service providers at the partner level or equivalent).¹² CAEs interviewed were from one public sector organisation and nine listed organisations across industries including utilities, financials, health care, insurance, industrials and hotels, and restaurants and leisure, while the four service provider interviewees were asked to draw on their experience across organisations or engagements with which they have been involved. Table 4.1 provides participant details. Participant representation across a range of organisation types (size, industry, sector) and auditor type (in-house CAE versus outsourced provider of internal audit services) allowed for a diversity of views in the interviews to facilitate investigation of the consistency of findings across institutional contexts. It should be noted, however, that the choice of participants was based on participants' rich knowledge and experience of the research subject matter to ensure in-depth insights into the areas under investigation rather than to generalise from the findings (Beitin 2012; O'Reilly & Parker 2013).

¹² In addition to being providers of internal audit services, participants IA6, IA11 and IA13 hold, or have held, various board positions, including that of audit committee chair, in various organisations (other than those where they are/have been employed as internal audit service providers). They drew on multiple perspectives in informing their responses during their interviews. Other participants drew on their experiences from their current and prior organisations/positions in their responses in the interviews.

Table 4.1 Participant details

| Interviewee | Position | Organisation type (Sector) |
|-------------|------------------------|---|
| IA1 | Service provider | Service provider |
| IA2 | Chief audit executive | Listed company (Utilities) |
| IA3 | Chief audit executive | Public sector (Education) |
| IA4 | Service provider | Service provider |
| IA5 | Internal audit manager | Listed company (Financials) |
| IA6 | Service provider | Service provider |
| IA7 | Chief audit executive | Listed company (Financials) |
| IA8 | Internal audit manager | Listed company (Health care) |
| IA9 | Chief audit executive | Listed company (Insurance) |
| IA10 | Chief audit executive | Listed company (Industrials) |
| IA11 | Service provider | Service provider |
| IA12 | Chief audit executive | Listed company (Commercial & professional services) |
| IA13 | Chief audit executive | Listed company (Hotels, restaurants & leisure) |
| IA14 | Chief audit executive | Listed company (Energy) |

Semi-structured interviews were conducted around the following broad target issues:

- (1) nature of internal audit's involvement in assurance and consulting over ESG information;
- (2) development of audit plan and inclusion of ESG areas;
- (3) drivers of internal audit's involvement in ESG areas;
- (4) key operational risks for the organisation currently and expected changes over time;
- (5) organisation/stakeholders' reception to internal audit's involvement in ESG areas;
- (6) promoting the value of internal audit's assurance and consulting involvement to the board and the organisation more generally;
- (7) conduct of engagements in ESG areas and emerging risk areas and challenges faced;
- (8) reporting findings of engagements in ESG areas;
- (9) skills and expertise requirements for internal auditing currently and in the future.

These target issues address the study's research questions and were developed through a literature review and discussions with academic colleagues and internal audit senior practitioners. Pilot tests of the questions and the interview protocol were also conducted with two CAEs and two academic colleagues to confirm the validity of the issues under examination. The use of semi-

structured interviews allowed for in-depth insights and understanding into the perceptions of individual participants on the target issues (Gendron et al. 2004; Turley & Zaman 2007). Accordingly, questions around the target issues were designed to be as open-ended as possible to facilitate discussions with participants without imposing preconceived notions that may inhibit their responses (Fontana & Frey 2005; Beitin 2012; Power & Gendron 2015). To obtain context and pursue an informed line of questioning in the interviews, efforts were also made to review all publicly available relevant ESG reporting (e.g. sustainability reports, corporate governance statements, etc.) by respondents' organisations on their corporate websites. Participants were also asked if they had any further relevant areas of interest that might not have been covered in the interview questions that they would like to discuss after the broad questions on the target issues were covered.

4.4.1 Data analysis and saturation

All interviews were digitally recorded. The interviews were subsequently transcribed and the transcripts were coded using NVivo qualitative software based on themes that emerged from the researchers' reading and discussion of the transcripts. The researchers' analysis consisted of an iterative process during which interpretations were drawn, revisited, reflected on and challenged "in a back-and-forth interplay" with the data as contained in the transcripts (Bowen 2008, p.144) within the context of the theoretical lenses outlined below (Power & Gendron 2015). As the data was analysed through this process, it became evident that data saturation was reached following the eighth interview, as no additional thematic ideas emerged from the data collected in subsequent interviews from this point (Guest et al. 2006; Bowen 2008). The data from the additional six interviews served to provide depth and nuance to the identified themes. Following these processes, and at the end of 14 interviews, we were confident that no further themes were emerging and that we had obtained sufficient data to provide in-depth, reliable, insights into the study's research questions (Lincoln & Guba 1985; O'Reilly & Parker 2013; Power & Gendron 2015) and thus concluded the data collection for the study.

The results in Section 4.5 are structured around the broad categories under which themes were identified, reflecting the study's target issues noted above. Section 4.6 discusses the overall findings of the study within the context of the multi-theoretical framework outlined below.

4.5 Results

4.5.1 Nature and extent of internal audit involvement in ESG areas

In discussing the nature of their involvement in ESG areas, it was evident that the participant IAFs were involved in both assurance and consulting aspects in these areas. In several instances, participants emphasised their involvement in consulting aspects over assurance aspects. For example:

You're expected to give assurance and a review of how your business is managing risk. At the end of the day ... it's [internal audit] there to actually support the business. That's how I feel. So yes, I'm established by the committee for assurance, but really what am I doing? I'm actually supporting the business, to make sure that they get where they need to get. (IA9)

Participants reported involvement in a diverse range of ESG areas, including environmental (e.g. hazardous waste management, energy usage, greenhouse gas emissions), social (e.g. workplace health and safety, employee retention and turnover, supply chain, community impacts and relations) and governance (e.g. IT, culture, ethics, strategic risk, governance arrangements) aspects. It was interesting to note that one participant cautioned against internal audit overstretching itself to new areas outside of its traditional domain with the ongoing expansion of its role, suggesting that:

If I can be frank I believe internal audit's struggling with its existing brief. I think it's already trying to do a lot and I don't know it's executing on all of that. I think it's doing a pretty lousy job of communicating its own value proposition and where it sits. So I think there's a big risk that if it extends even further ... we'll actually step too far away from its core ... I sort of think, well, just master what you've got for now is my view. The things that it needs to digest and hasn't done effectively is big data ... data analytics, social and cultural stuff internally, particularly around culture ... (IA11)

The nature of participant internal audit involvement covered both assurance (on compliance, controls, monitoring, risk management and minimisation) and consulting (e.g. facilitating brainstorming sessions on risk identification, input into risk mitigation, and controls design and implementation) aspects. It was suggested that the approach for assurance engagements was fairly consistent regardless of the subject matter of the engagement, as summarised by one participant as follows:

So what auditors tend to do is they look at whether management's assessing risk in the space, whether they're operating within risk appetite, whether their controls are in place to keep it within risk appetite, are those controls effective. It almost doesn't matter what the subject matter is, you can apply that to anything. But the methodology and approach is still fairly similar you'll find. (IA11)

In some cases, the engagement involved a hybrid approach, with the IAF initially involved in an assurance capacity, and later transitioning to performing a consulting role. For example, a common consulting role undertaken by internal audit in ESG areas involved working with management to design appropriate controls in responding to ESG risks and/or audit findings. The interviews also revealed that there was not necessarily a common understanding amongst participants of what consulting engagements constituted (particularly where the delineation between risk and audit functions were not explicit within the organisation), with levels of involvement in consulting type roles varying. For example, some participants reported that they played a facilitation role, while

others reported greater involvement in contributing to executive management's discussions, as exemplified by the following experiences:

We would have a finding ... the evidence that sits behind that finding and ... management agreed recommendations. That's when we would sit down and say look, here are some ideas of what we think you could do to fix this problem and have them agree that yes, we can do this, and we will go, okay if you feel comfortable, we feel comfortable that this will close out the risk ... They will then go and implement it. I [CAE] would not be involved in the implementation of that. So we call them agreed management actions, but it's almost co-developed, but I would then allow them to go away and do that. (IA12)

He [CEO] walked me in [to an Executive Committee meeting] and said '[name], you're a member. How this table works is it's a collegiate model. Everybody is a subject matter expert in something and that's what you bring. So you're the subject matter expert in audit and controls governance. But you are to bring your knowledge to the table. So if we're talking about something in other realms and you've got some knowledge in that space you are to bring it to the table.' So he was inviting me to bring, in a sense, the consulting into the Executive Committee discussions. (IA6)

Most participants noted that the internal audit's work is predominantly in the non-financial areas, with financial areas reported to be only between 10–30 percent of the annual work plan across most participants. Only two participants (IA2, IA5) reported that the focus of the IAFs in their organisations continued to be on financial areas. IA5 emphasised that “internal audit is a financial area, but it's more about the controls that generate financial information” and that the financials were what drove the business. Similarly, IA2 suggested that internal audit had limited involvement in emerging ESG risk areas, such as corporate social responsibility (CSR), as these issues were of less importance to the organisation and consequently its IAF:

It's all risk based and when you look at the risks ... you know the financial risks, the risks of giving the wrong invoices to your customers, the risks in HR [human resources] of employing the wrong people and that. Over the last five years they've always outweighed you know our failure to do proper CSR – who cares? You know there's no – that's just a sort of almost a PR [public relations] exercise ... I mean personally I'd have to say it's low down on my risk list ... So the auditors are focused on hard stuff. You know are we doing our bank recs, we are doing those sort of things. (IA2)

However, there was universal acknowledgment by all participants of the increasing importance and growing extent of involvement in ESG areas over recent years. The suggestion that there had been (and will continue to be) a significant shift in their functions' scope from financial to non-financial areas is typified by the following quotes:

I think the non-financial is where internal audit is headed. I probably do 70 to 80 percent of my time is non-financial and ... I think that's where management see the value. So internal audit as you know is not required really, there's no legislation that says you have to have an internal audit, whereas external audit is a requirement so they're going to come in anyway. They're going to review the balance sheet, the P&L, all your controls. They're going to audit them to death before they sign off on their report. So I think from what

I've experienced, senior management don't want internal audit to do exactly the same as external audit, so they want you to go off and do other areas ... (IA8)

My view is that that's [non-traditional, non-financial areas] what internal audits should be looking at. I mean we talk about auditing strategic risk. Well what are they? Well what are the company killers? What are the company makers? Let's focus on those processes. Let's not focus on SAP and finance. We'll do that but jeez, you know, that's only 10 percent, 12 percent of our program. (IA14)

4.5.2 Drivers of internal audit's involvement in ESG areas

A number of common drivers emerged for growing internal audit involvement in ESG areas.

These generally relate to greater awareness and sensitivity to external stakeholders and legal and reputational repercussions of neglecting the importance of ESG risk areas within the organisation, the changing regulatory environment, and CAEs advocating for an increased scope of the IAF within their organisation.

The emergence of legal and reputational risks as categories of risk to be managed (Power 2007) in the current corporate environment appears to be a strong driver for internal audit's involvement in ESG areas. Regulatory requirements are now forcing organisations to account for what were formerly negative externalities, and pose growing operational risks with significance beyond mere compliance or public relations. There was some evidence that internal audit's involvement in certain areas where there have been regulatory reforms, for example, in terms of health and safety or mandated environmental reporting, is now taken for granted as the norm. For example:

When it comes to environmental issues, compliance with regulations or obligations is a natural state. I would argue that anything to do with regulatory compliance or market assertions on regulatory matters ... is actually a core competency for internal audit that's driven by reporting and regulatory compliance rather than by the fact that it's environmental. (IA11)

Participants pointed to increased awareness and changing attitudes of internal stakeholders:

I think it'll take some more time but I think there's a better cooperation, better understanding, of the external legal and fiduciary requirements but it's not only caused by the internal audit intervention, I think it's because of the media frenzy that we have at the moment ... It's not with all of them [management] yet, [but] it's been cascaded now and I think within the company there's definitely much greater awareness that the decision making needs to be responsible ... Their [management's] job is to maximise and share all the wealth in a responsible way ... It has had a definitive impact on the governance. There's been many more policies and standards that have been generated and approved by the board that's now been cascaded down. (IA10)

This was reinforced by greater sensitivity to external stakeholders, particularly shareholders, to a broad range of responsible business practices in a global business environment. This was in spite of the suggestion by most participants that the key stakeholders of the IAF are the audit committee

and the board (including executive management) and, in some cases, operational management. The impact of these are exemplified by the following quotes:

So we operate globally ... and how we go about doing the business is becoming quite important. Not just what we're doing it's how we're actually doing it. So shareholders want you to be ethical, they want you to deliver a bottom line profit but they also want you to do it in that socially responsible manner. So I suppose that's where internal audits come in ... to provide assurance that we are operating in an ethical manner. We've visited our distributors, we've reviewed their – we do supplier audits where we assure that our suppliers are conducting their business in an ethical manner. (IA8)

It's not standard internal audit anymore. We need to make sure and be mindful that we deliver value that we can clearly link the work we do to shareholder wealth because the shareholders will go. They move, they change their support with a click of a mouse. They go and then they sell your shares and buy somebody else's share if you can't demonstrate two things: that you've increased shareholder wealth, in a responsible way. They're prepared to pay a premium for companies that make slightly less return on investment but are sustainable and it's done responsibly. (IA10)

Increased transparency and reporting requirements as a result of the changing regulatory environment were also seen to have contributed to the need for internal assurance in sustainability areas. For example, it was suggested that violations of workplace health and safety legislation were now publicly available on state regulator websites and could result in loss of business should external stakeholders (including suppliers and customers) decide not to engage with the company on the basis of any reported transgressions. The value of assurance in contributing to more credible and consistent extended reporting of ESG information was also noted.

Senior management, board members and, in particular, the audit committee, supported increased resources for internal audit to allow for this expansion of scope and greater comfort to be obtained through the assurance provided. It was suggested that there was a greater propensity for these actors to “drive the agenda because they now appreciate the more they drive the agenda, the better they'll get an outcome” (IA10). This also has seen increased expectations of the IAF in terms of expanded involvement in ESG areas:

I think because the audit committee are now asking for a lot more audit work to be done over the key corporate risks of the organisation, they're expecting a lot higher quality outcomes. (IA3)

Increased awareness around ESG risks and the suitability of internal audit to provide assurance over these risks also drove the board to direct greater internal audit involvement in ESG areas. For example, drawing on his perspective as a director and audit committee member, IA6 suggested that internal audit's involvement should be predominantly in non-financial areas as the financials were already being covered by the external auditor:

As the chair of an audit committee, where am I getting my better value for my internal auditor? ... I have external audit using a lot of money ... if I look back at my business risks, a lot of my risks are in non-financial areas. So very rarely in organisations where I've been the Chief Audit Executive or I've been chair of the audit and risk committee [have I] had external audit [replace much of my] internal auditor because my internal auditor is dealing with a significantly different range of risks. (IA6)

It was also evident that the IAF's involvement in ESG areas was driven by the nature of the organisation in terms of its size, risk profile and the industry in which it operates. For example, in discussing the way in which risk identification and analysis is conducted within the organisation, IA13 suggested that in his previous experience in a mining organisation, each risk was assessed in term of its impact on safety prior to other aspects (financial, environmental, reputational). This ensured that safety was a key item on the agenda across the entire organisation, including for the IAF. The relevance of sustainability risks in organisations operating in sensitive industries, such as mining and utilities, was a recurring theme through the interviews. While there was implicit recognition of the greater scrutiny larger companies were under from various stakeholders, one participant (IA11) also explicitly noted the influence of institutional (superannuation) shareholders in the Australian context, and how this was starting to drive greater sensitivity to sustainability type risks.

Finally, there was evidence that some participants were pushing to expand their IAF's scope to emerging ESG areas that they had identified as important.¹³ It became clear, however, that in order to effectively embed their involvement in these areas, they needed to obtain support from internal stakeholders. Strategies employed to embed internal audit's involvement in new, ESG areas are discussed in greater depth in Section 4.5.4 below.

Support from internal stakeholders resulted in increased demand for internal audit's involvement in new areas. For example, one participant expressed a lack of surprise in the diversity of ESG risks that are increasingly making their way onto the internal audit plan and explained that following an extensive education roadshow rolled out to business units and the board, there was greater appreciation and growing numbers of special requests. He cited an example as follows:

We had a special request by one managing director to look at the staff retention processes. It's highly irregular that a managing director will ask internal audit to look at the staff retention processes and I suspect that that's a consequence of us making sure that our role and mandate is clearly articulated and it's clearly understood and accepted by the wider business. So no I have not been surprised about us putting anything on the plan, in fact they said, 'well, I think that's great that you guys are looking at those processes as well'. (IA10)

¹³ Page and Spira (2004) report a range of internal auditors' aspirations to be involved in risk management and plot internal audit approaches against company approaches to risk management. They find that the main driver behind the push to integrate internal audit with risk management is an individual or a group championing the change.

It is worthwhile noting that there were common themes in relation to factors that were barriers to internal audit's involvement in ESG areas. The barriers included the economic environment and financial pressures faced by their organisations (which impacted on resources available to the IAF, including appropriate expertise). The limited size and maturity of the IAF, as well as of the organisation's ESG information systems, were also perceived to inhibit internal audit's involvement in ESG areas.

Because they're limited size teams they never get to the CSR side of things. So that's kind of where we are. I would add – and probably just as important is because CSR and environmental has only risen up in the last 10, maybe even five years. We're busily putting systems and discussing this and putting things in place. It won't be ready to audit for five years ... (IA2)

This is a smaller organisation ... so in this particular role all the audits ... tend to be more transactional and financial type risks ... I think you need to have the resources and the bandwidth within the organisation to be able to look at them [non-financial risks] ... So an organisation like the one that I'm in at the moment, which has only been listed for a couple of years and is growing very quickly, my main concern now is just to make sure we have our houses in order from an operational, financial and IT perspective. I'm not going out there trying to test the environmental impact. Having said that, in any organisation I want to make sure that we have something around culture. I think culture is really important, I think it's important to the board and the organisation. (IA12)

In discussing the maturity of the IAF and its relationship to the function's involvement in ESG areas, it was interesting to note that a distinction was drawn between engagements that were over sustainability subject matter with specific aims around compliance, and involvement by the IAF in broader, more strategic audits. The following illustrates this:

There's a big difference between sustainability assurance ... which was just very specific ... because you're looking at data driven audits, and the broader strategic risk management audits ... They're run very differently ... I think less companies do the second piece, they more do that first piece. That's more of a maturity thing, I think ... bigger, broader audits, the strategic risks, I think, is the path to take. (IA12)

Elaborating on the difference between the types of audits, the participant suggested:

... would do some very specific audits around very specific parts of their HSE [health, safety and environment] management framework, have you complied with section 2.9.3 around X, Y and Z? Some of that might be, for example, around process safety ... basically our ability not to blow up one of our facilities. Whereas I would look a lot more broadly and at a higher level around have we got the right controls in place, the right people, the right tone from the top ... the right approach to risk management and ... so I'd kick it up a notch ... and there's quite a difference between those two different levels of assurance. (IA12)

4.5.3 Initial reception to internal audit's expansion and embedding its involvement in ESG areas

Initial support for internal audit's expanded scope to 'new' non-traditional areas within the organisation was mixed, ranging from confusion ("Most of it is like, who are you?" IA3) to general resignation ("It's the story of life. In audit you're not wanted but they accept that you have to be there." IA5) and fear ("If you mention auditor, they all cringe and fall apart and go, 'oh my god!', and they never ever actually see it for what it is", IA4). Often it was received with a different reaction from traditional financial audits to which auditees were well accustomed to (i.e. 'seasoned veterans'):

Because it's more process driven ... there's a lot of fear and a little bit more suspect in terms of what we're doing here. Or they think that we're there to try and get rid of people – find faults. Whereas the seasoned veterans [auditees of traditional internal audits], they're really like, this is us – this is what we've got. Here's our maps – come in and have a look – kick the tires and check – we haven't missed anything. (IA5)

Auditees' fears at times manifested as hostility to internal auditors. The following provides an example:

One [engagement] where security clearances were needed and there was quite a lot ... They never had a review of a certain area of technology. Because of the work that I was doing I was actually cleared up to top secret ... started working my way through and I actually had a couple of the business units who were quite hostile because they had never been audited before. So they were pulling the cards, 'you know, I don't know if you're authorised to – for me to talk to you about this stuff. I don't know if you've got the appropriate level of clearance.' Actually delayed the audit a bit and eventually ... the manager of that division just went, 'this guy is cleared to talk about anything in here. He's probably more highly cleared than any of you. Just get over it and get it done.' (IA6)

It was evident that this lack of support or even hostility to internal audit's entry into new ESG areas was present at various levels and not limited to business units being audited. In some cases participants also reported hesitation to allow internal audit to enter new areas at the board and senior management level, as illustrated in the following:

I was often ahead of the game of my directors ... When I put up my audit charter ... [it] had to go through the Ex-Comm [Executive Committee] before it went to the board. The Ex-Comm wouldn't agree to the full audit charter at that point in time because they had been burnt [by prior audits]. They didn't want that to be an internal audit so they cut it out. (IA6)

When we started doing some of the [ESG] work and findings were identified, we had pretty time-consuming, very heavy negotiations and discussions and clarification. Some of the CFOs for example said to me, 'I didn't think internal audit should be doing this ... but it's part of your mandate so let's see how it goes and then there's a lot of clarification on how we do it, why we're doing certain things, it's not the right people, we haven't discussed it with the right people and we should do this, that and the other ... (IA10)

The biggest problem is a lot of these large strategic sustainability risks don't have a blueprint. That was always the challenge I had from an executive perspective, was what's the blueprint against which you are assessing this risk. What standard are you holding this to? (IA12)

Support for internal audit's involvement would also vary within the same organisation depending on the business area and/or individuals being audited, and their prior experiences with either external or internal auditors, or their perceptions of the value of audit. The following quotes provide a number of examples across different participant organisations:

You can joke about it ... the reactions are, 'it's not needed, we're the best thing since sliced bread. But good executives tend to embrace it and use it as a learning experience'. (IA1)

We get all sorts of different approaches really, from relentlessly negative to very positive, it just reflects the politics of any organisation ... in any organisation you get sometimes a great deal of friction ... I think it'd be fair to say that the best performers welcome us and those that have had problems in the past or are particularly strapped in terms of resources one way or in the other will automatically feel over-audited, or could do without extra overheads ... I'm just being realistic in terms of the fact that not everybody's going to welcome an audit. The relationships we strike with people very much depends on sometimes the personality and outlook of the people that we're auditing. (IA7)

I suppose the senior staff are probably less inclined to air their dirty laundry ... so the senior management basically are reporting through to the CEO or someone very senior. They don't really want someone independent to come along and say here's all these issues because that makes them look really bad because they're personally accountable. (IA8)

So you're not always welcome and you're not always able to add the value you'd like to, because you don't have the resources or the time to do it. But I think if you have a reasonable conversation with them about the purpose of this and even if it's not directly for them, it's for the greater good, you can usually get people on board ... you work with the personality that you have, to develop the approach that they're going to be responsive to. (IA12)

However, there were also positive reactions to internal audit's involvement in new areas. With the elevation of internal audit's role in risk management and their direct reporting to the board, some managers and other organisational functions took the opportunity to advance their causes through internal audit's involvement in their operational areas and sought to welcome and potentially influence greater involvement by internal audit. The following provide examples of this:

I'm actually surprised at how well people are happy to have us come in and review their area. They almost use us as a bit of a launching board to share their agendas. They know that our reports will go to senior management and they go up to the audit committee so if they've got some issues with the way that they're operating and they feel that there's a super way to fix it they'll certainly let us know about it. So they're very open with the issues that they're finding and yet more than happy to have us aboard. (IA8)

They're [workplace health and safety function] often keen for the issues that they can't get addressed through normal ways to get picked up by us as well. But by the same token, we also then need to make sure that if we're raising an issue, it's evidenced and not just because the health and safety people have got a bee in their bonnet. (IA3)

Finally, it is worth noting that the importance of engaging support from internal stakeholders, including the board and senior management, was recognised as critical for internal audit to expand into new areas by participants. In noting that there was now a stakeholder engagement plan for each audit and reflecting on her commencement as the head of the assurance of sustainable development (within the IAF), one of the participants described her experience as follows:

I think that easily 70 percent of my role is engagement. When I first came into the role, I sat down with all senior executives and board members and said what's working well, what's not working well, what could we do differently. When I came into the ... sustainable development assurance role, it was floundering, it was struggling, it didn't have the support of senior leaders and so was finding it very difficult to do its work. Part of the reason for that is, I think, the limited engagement that management had. They were finding themselves in situations where they were presented out of the blue with a report that said you're not doing this well enough, that's going straight to the board. (IA12)

The following section outlines the findings in terms of the strategies used by participants in obtaining support to facilitate their expansion into new ESG areas, including in terms of the reporting by the IAF.

4.5.4 Strategies enabling internal audit's involvement in ESG areas

Four overarching themes were identified concerning internal audit's strategies to embed their involvement in ESG areas. These were:

- (1) mobilising discourses of regulatory mandates and reputational impact;
- (2) mobilising expertise;
- (3) mobilising support from internal stakeholders through consultation and transparency; and
- (4) mobilising the consulting role of internal audit.

While there are overlaps in these strategies and their interactions in practice, each contains unique elements worthy of independent examination and discussion. These strategies and the means by which they were mobilised are each discussed in turn.

4.5.4.1 Mobilising discourses of regulation and reputation

As discussed above in Section 4.5.2, increasing regulatory requirements, and the potential impacts of non-compliance for the organisation and its directors personally, were instrumental in expanding internal audit's scope to ESG areas. This, in turn, enabled internal auditors to mobilise the rhetoric of regulatory mandates and reputational impact to embed their involvement in these new ESG areas. For example, in the area of workplace health and safety, some participants brought to directors' and/or management's attention the high risks attached to non-compliance with

legislative requirements (e.g. “OH&S is about killing people and the board is going to gaol”, IA2). Discourses on regulatory requirements were also mobilised in eliciting management’s cooperation through the course of the audit, and in inducing management to implement responses to identified non-compliances promptly. This process is typified as follows:

What I like is that they have no idea that they’re [management] non-compliant in any area whatsoever. Then when you start bringing it very gently at first, and then you have to be totally ruthless and say this is exactly how it is ... There is no nice way to tell anybody that you’re non-compliant so I make it very clear to them prior to starting the audit that there are no shades of grey in my audit findings. You either are [compliant] or you’re not ... If you want to continue operating, this is what we have to fix and if you don’t, well ... it’s not happening. That is the challenge ... to get them to realise that ... you have to step up to the mark and you have to embrace the changes that are happening, even within that industry and as far as governance is concerned ... there’s a lot of things they risk by not being compliant. (IA4)

4.5.4.2 Mobilising expertise

The need to obtain appropriate and adequate expertise when embedding their involvement in ESG areas was a consistent theme across all participants. Expertise was seen to be necessary to impart credibility upon internal audit’s involvement in new areas. The different types of expertise required include business and commercial acumen and the overall competency (both in relation to technical and generic skills) and quality of the IAF, as well as specific subject matter technical expertise. The expertise required was obtained through engaging either internal experts within the organisation or external subject-matter experts. There was also evidence of IAFs beginning to build their own capacities through their human resources practices. Different types of expertise and ways to obtain them are discussed in turn below.

Business acumen

Respondents made efforts to embed their involvement within the new areas they were entering by relying on their ability to engage with the business through their detailed understanding of how the business worked.

I’ve been in the [specific sector] for a while, so I think I have an end to end view of processes [inherent to the sector], so I believe ... [I can] have a conversation that basically gives an impression that I understand the business, processes and what it is all about ... the more you stay, the more you know the business. So I’m here for almost two years, so now I think I can talk to them [management]. (IA9)

Supplementing this understanding of the business with commercial acumen and analytical skills was perceived to be a critical factor in embedding internal audit’s involvement in different parts of the organisations.

If you don’t have the business and commercial acumen you will have no respect, you will not be able to demonstrate that you’ve actually – what you’re doing is adding value to the

organisation and to the shareholders. You won't be able to sell it, you won't be able to put in the business development process to market and sell your services and if you don't know and understand the business you won't focus on those things that really matter that drive value, cost. (IA10)

One participant (IA11) with experience across various IAFs noted that career internal auditors who had little experience outside of internal auditing are limited in their potential contribution to the organisation. The following elaborates this view:

What I take as commercial to me is that you've done something other than internal audits, spent some time in a genuine business environment where they've had to make real work decisions that are not easy, to improve the profitability of the business or stop a business from going south ... I don't think you can do that if you've spent your life as the internal auditor ... I've seen from people who have taken internal audit to new places ... have been led by people who have not come up via the internal audit chain ... they might have had a background in it [internal audit] then gone out and done something else and then maybe come back, or they may be lateral transfers but just didn't come up via that chain at all ... They're the people who tend to drive things forward in my experience ... But I've [also] seen a lot of others where they're just not commercial. They say look, here's the rules and here's more layers of process, and here's more forms. It just doesn't [work ... it's] not the way to do that. (IA11)

Overall competency and quality of the internal audit function

High level of expertise and skills within the IAF was perceived as critical to successfully demonstrating the ability of the function to add value:

I've found that in a lot of organisations in Australia, going back over the last 20 years, the internal auditors are the accountants who kind of couldn't make it as finance people. So internal audit in a lot of companies is the B team, they're not as good performers, they're just away ticking, and I've always been of the opinion we've got to turn that around so we've got to make the internal audit a real partner with management, very small teams, highly qualified people. If you ask any of the directors at our company does the internal audit add value, they'd say, 'oh yeah, when they come and have a look at us they don't give us 12 pissy little recommendations'. They give us one or two doable high value recommendations. (IA2)

In addition to technical knowledge and skills, other 'softer skills' including the continued requirement to research and make sure your skills stay relevant ... customer relations, negotiation skills, the ability to present your findings, the ability to analyse complexity, distil it down into what are the key three or four things that are driving the particular areas ... the ability to write succinctly" (IA10) were suggested as important to the IAF's success within the organisation when venturing into new areas. Interestingly, it was suggested that having a professional qualifications like being a Chartered Accountant (CA) "are great on paper, but it doesn't help me become a better auditor" (IA5). Further, the increasingly multidisciplinary nature of internal auditing, and the decreasing need for the CAE to be someone with an accounting background, was noted by a number of participants.

Participants also considered that their risk management expertise provided a robust framework that was transferable across context and was useful in facilitating their entry into emerging ESG areas, in conjunction with other generic skills including effective communication. The following illustrates this view:

... we did a review of malaria ... because one of our employees had died from malaria. So I sat down with my audit team and said okay, guys, we need to understand what the risk is to the business, what controls we have around this risk and if those controls are implemented and effective. Everyone freaked out [that we] had to audit malaria and as it turns out, each time we come across these challenges we just apply the same sort of – well I would apply the same formula but tweak it very gently, which is firstly, articulate what does actually the risk look like. If we can't articulate the risk at the outset, then we'll never be able to have a robust answer at the other end. So at the outset, we're 100 percent what is the risk that we're looking at here and making sure that all the stakeholders involved in that particular audit are fully aware of that risk and have bought in that it is the risk to look at, because you can tweak the language around it and all of a sudden it becomes something less relevant. So at first, everyone has to agree that there's a particular risk to the organisation, it's something that we need to look at. Then we need to understand right, based on that risk, what controls have we designed to address that risk. The tricky bit is what controls should we be designing, because ultimately we're trying to say do we have the right controls designed in the right way to manage that risk? (IA12)

Having had experience in using this in the context of engagements in the sustainability context, the same participant expressed that this experience developed skills that have subsequently been useful in entering new areas:

I draw a lot from my sustainability experience and how to audit difficult things that haven't been audited before and how to create a framework to audit it that is defensible and means that the results are valuable ... If I do a risk assessment or something else, I'm always thinking about it from a sustainability perspective, because I always found it a lot more challenging assessing ESG risks. They're a little harder to pin down and so you have to have a really robust framework to be able to do it that's dependable. (IA12)

Engaging internal and external subject matter experts

Subject matter experts were considered to be instrumental to internal audit's credibility and enabling its involvement in new, ESG areas. External expertise was generally enrolled when internal auditors were entering niche areas. For example, IT and workplace health and safety were cited as areas in which external expertise was engaged by several participants. The following quote illustrates this:

I think credibility is absolutely crucial in what we do and we will do our best to get the appropriate training but there's a limit to what we can do with a team of three people ... we can audit perfectly competently through common sense principles and basic accounting and the like, but there is a specialist end of that where we rely on external expertise to check if that's right. (IA7)

Subject matter technical experts were engaged to ensure that internal auditors “focus on the right areas” (IA10) by providing relevant standard and frameworks for the audit, as well as in developing appropriate recommendations. In addition to enrolling allies, as discussed in Section 4.5.4.2 above, some participants also reported partnering with other functions within the organisations (e.g. sustainability or HR) to address gaps in the IAF’s expertise. Together with the auditors’ own understanding of the business, these practices served to ensure that interpreting and explaining ESG issues and risks to management and recommendations provided were “what management sees as a really good core product” (IA9) that were framed appropriately. For example:

The staff we use on this sort of non-financial work are multidisciplinary rather than traditional accountants and auditors ... the core of the team is normally our own people, but depending on the topic we’ll either supplement it by getting an expert consultant and buy them for the duration of the job, or from time to time, form a reference committee, which might only meet a couple of times at the start, middle and the end, to bring in that broader perspective ... it’s a real mix ... scientists, engineers, nurses. We’ve had the odd veterinarian, the odd medico ... (IA1)

Building internal capacity of internal audit functions

Some respondents pointed to their intellectual capacities and interests outside of accounting and auditing and their ability to adapt and continuously update their knowledge and skills through independent research. However, there was also recognition and demand for ESG skills and expertise as reflected in current recruitment practices. For example, having recently embarked on a large recruitment drive for the IAF in the organisation, IA10 was cognisant of the changing nature and focus of the function’s work and took steps to ensure that his team of 19 staff were adequately equipped with a range of expertise and competencies. He explains the recruitment process and outcome as follows:

What we’ve done is analyse the work profile, the work that we would be required to do, then developed technical and a behavioural competency profiles and that was done through headhunters and psychologists. So we’ve defined the technical criteria, the competencies. We defined the behavioural competencies as well. We had the people test against that. In the advertising campaign we had 780 applications so it was a pretty significant effort to get through all of that ... We’ve got people with deep internal audit expertise and background and we’ve got individuals with – there’s a civil engineer, somebody with a masters in human resources and human science and he’s also got a CPA [Certified Practising Accountant]. We have chartered accountants, quite a few of them. We’ve got people that were procurement managers on projects and financial managers on projects, so we’ve got business people, external, internal. So it’s a really good mix of skills. (IA10)

This appropriate mix of skills was seen as an important contributor to perceptions of quality of the IAF and an important part of buy-in when entering business units for audits. IA10 explained that following the recruitment drive, he made staff allocations based on expertise and made a point of explicitly communicating to line managers that the function had the requisite skills. For example,

“if it’s a construction project ... our civil engineer will take the lead on that ... if it’s a people management process, the individual with a HR background will take the lead on that”. The importance of internal stakeholders’ perceptions of the IAF’s quality and credibility were emphasised by participants as follows:

That’s your business, that’s your reputation. What do other people believe about you and that will drive your success and the next role and the challenges that you are being given and offered because if you don’t proactively and consciously develop this brand – that’s a brand, that’s a reputation, that’s your business – what does it stand for? What do you want other people to believe? We have a brand management strategy for internal audit. We do because it’s a brand, it’s a professional service that we’re busy setting up. (IA10)

Audit had a really bad reputation and part of the reason they had a bad reputation is that [the organisation] is a – or was – a company of predominantly engineers. Engineers are a strange bunch in the just the same way accountants are a strange bunch I suppose. But they prefer to talk to their own, so that’s where everything started with if I’m going to audit engineering processes and essentially operational risks that are managed by engineers ... I need someone that talks the same language, that has the same sort of background and so that’s what we did. (IA14)

Another way of engaging internal subject matter experts and building the internal capacity of the IAF in some of the participant organisations was through the use of rotation programs through the IAF and/or the use of the IAF as a management training ground. The most extensive use of this was described by one participant with comprehensive arrangements around a guest auditor program and a rotational program. In the guest auditor program, individuals across the organisation joined a pool of 50 guest auditors that could be drawn upon for a period of two to three years, typically to assist with one to two audits a year.

They [the guest auditors] did the audits. They brought a different perspective. They spoke to the business in their own language, peer to peer discussion, better quality actions, more insight, able to target the key risk areas for our business. The key risk area for us is not a financial process. The key risk area for us is some explosion in a plant, so how do we audit that and that’s kind of – we need engineers to do that ... we basically trained the engineers in audit process. (IA14)

The rotational program in this organisation was utilised as a form of management training ground and also to supplement the IAF’s resources. This typically saw seconded staff working in the IAF for two years, completing around eight audits during this time. These staff members were selected by the CAE to ensure alignment with the IAF’s requirements, such as health and safety and human resources expertise.

The use of such practices was not without challenges. For example, one participant noted:

You can ... rotate people through. You can have lateral hires, you can have people go out into the business and then come back again potentially later. So I think it needs a lot of in and out is my view. It poses some challenges because if you want to be a dedicated

specialist you do all these qualifications, get the professional membership, and then you leave it, and then maybe you come back or maybe you don't, but you still maintain your credentials. I guess it's not dissimilar to training as an accountant and then becoming a commercial manager. You've always [got ...] accounting qualification there but you don't actually ever use it or read anything in their literature or look at accounting standards anymore. But you've got that as your base. I think there's some parallels there. (IA11)

IA14 was also able to reflect on lessons he had learned in refining the guest auditor program over the years. He suggested that initial iterations resulted in lacklustre results as guest auditors did not necessarily prioritise their involvement in the program and were generally passive in their approach. He subsequently ensured executive support by implementing an executive mentor program and positioned the rotational program as “a big development opportunity and there's a real win/win opportunity here for you [senior executives]”. This had the effect of making it known that “the people that we wanted were not just engineers; they were the crème de la crème of engineers on the management path”. The guest auditors were also given the responsibility of leading the audits in which they were involved. The resulting operationalisation was described as follows:

Now what we have on those audit teams is we have an auditor that essentially coaches the engineer, the lead, and essentially ensures that we comply with our process. So we monitor quality by essentially staffing our assignments with one of the audit team that guides the process through and says okay, now you need to do this, or we've got this finding. Therefore you've got to follow this process, or it can coach them in controlled methodology and thinking and work with the team. So not only have we got essentially a future. .. leader, we have an auditor and then we might have another person who's learning the process and will lead in the future, so teams of three normally that go out and do assignments. (IA14)

The use of an executive mentor program, in particular, was a novel way of engaging internal expertise, in addition to supporting the IAF's entry into new areas at the senior management level.

4.5.4.3 Mobilising support through transparency and consultation

Being transparent and consulting with internal stakeholders was perceived to be another important strategy in embedding internal audit's involvement in ESG areas. This ranged across all stages of the engagement.

Being transparent about the purpose of internal audit's involvement was a key strategy in building trust and mobilising support for the function's involvement in new areas. Participants also made efforts to assure management that there would be “managerial processes and control processes that are in place that would be examined by internal audit, not the decision making because management is paid to make decisions and deliver the outcomes” (IA10). The following quotes reflect participants' arguments for this approach:

I think we need to be more transparent ... we need to be more open, and I think that we need to perhaps develop a new style that will work in with the 21st century in the ways that people will open up a little bit and you will get the information you want back. (IA4).

I think you need to be very upfront and say look there's no specific reason why we're here, it's just part of the regular audit cycle ... So if you can alleviate any concerns that they might have then I think you've cleared off the dust and removed a bit of a wall there and then it becomes about just a personal relationship I think and then it becomes about you and that person that you're auditing or that department. (IA8)

You're open and sharing within professional tolerances, and then, certainly, I've always maintained a strong view of no surprises. Now, there are extreme exceptions for suspected fraud and corruption ... [But] in the main, you can be very open about what you're going to do and how you're proposing to do it, because the evidence either exists or it doesn't. You can tell if they were created yesterday ... you can tell when it was originated and when it was amended. (IA1)

It's partly building trust one on one, but they would trust me as an individual, but what my purpose was within the organisation and my intentions in terms of how I would approach the work, which is to be very open and very honest, very objective and independent. (IA12)

One final thing that I would say ... is very, very relevant is ... just sitting down ... and just say, look, this is what we review, this is how we do it. Be completely transparent. We've all gone into audit environments which are antagonistic to start off with. The one trick that I've always found is that I sit down and say to the person, I'm going to be completely process transparent. You can ask me about absolutely anything where we're up to in the audit and you will hear about the issues first before I tell anyone else. Then I give one caveat. I'll say, with one exception. If you're so stupid as to be committing fraud, you and I both know that you're the last person I'm going to be telling that I'm looking at you. What it does is it establishes my principles of transparency and openness, but at the same time, it also sends a very strong warning signal that I know more than I'm ever going to probably tell you anyway. Don't be stupid with me. The reason why, I suppose, I use that as a summary point here is that that transparency is something I'm not sure that we have yet as a profession really grabbed on to in a manner that we can to the benefit of our stakeholders. (IA13)

In addition to being open about the rationale and purpose of engagements, transparency also involved informing management of the impending engagement. It was suggested by participants that, to be done effectively, as much notice as practicable should be given:

The way that I've actually done it from a pragmatic perspective is firstly if they're finding out about the audit two weeks before you're starting the audit, you are six to nine months behind the eight ball of communication, because you need to take them on the journey. Yeah, we've done this risk assessment. Now this risk assessment, these areas have been identified or alternatively we've spoken to the board and the board has specifically asked us to look into this area. You tell them that as early as possible as to why the audit came about. (IA13)

The ability for consultation to build personal relationships and trust was emphasised as a critical aspect in securing support from internal stakeholders:

Without a doubt, the importance of personal relationships seriously cannot be underestimated ... I sit down with the head of information security and say, what's the worst that could happen? I sit down ... and say the worst that could happen is you get your database stolen. What are we doing about cybersecurity? ... Would it help if we did a review of cybersecurity as a major risk? Oh my god, would it what? All of a sudden there ... we both know what the risks are. We both have got similar issues at play. Then we go away and do it together. The personal relationships are critical, but they're not only critical at the high level. (IA13)

Consultation with management at the planning stage of audits varied from inviting comment or questions to more formal engagement with management, particularly in providing the opportunity to contribute to setting the scope of the audit. These included alignment of audit programs with management and business outcomes and demonstrating that internal audit was supporting the business. The means and rationale for these are exemplified as follows:

We have workshops with the auditees at the planning stage of every audit ... It's a formal involvement process where we put up this is your audit universe, so we'll take every area and we have 10, 15 people in a room. We debate, we discuss and they vote on impact and likelihood ... so there's very heavy involvement in the annual planning and they participate actively, so setting of the scope they can add, but they can't take away. (IA10)

Management would be either a sponsor or an owner of the audit, because you really want them to feel like they're a big part of this. It's not being done to them; it's being done with them and for them. Being able to show them what the value is that they're going to get out of it as well, because you get more out of the process. I would also have them heavily involved at the outset, even before we would scope each individual review, when we would determine what it is that's going to be reviewed. Be flexible and agile, but at the same time be firm enough to go actually this is the time we need to look at this, but let's talk about how we do it, and how we can make it of value. What would you like me to add to this so that on the back end you get some information that you need to be able to make some decisions. It's really getting them heavily involved – so it's really a participatory model, not it's happening to you. (IA12)

They're [the audit committee] a stakeholder but it's actually a management collaborative effort, because they own the processes and we assess their processes right. We evaluate their processes and then we also look at the risks that we may be encountering, or may encounter and evaluate the processes against those risks. So that's a discussion with the divisional leadership teams and it's back and forward on that. It's a continuously evolving process I'd have to say. We don't plan annually, we plan all the time. (IA14)

One participant described the rationale for consultation with the board and management and the process in risk identification as follows:

They're top-down, bottom-up. Firstly it is the view of the board. What are your views of risks? The reason why I start with them is you go back to them at the end and say, your views of risk align with the management's view of risk or they misalign. If they misalign, that's a risk in itself, so start with the board. Secondly you sit down one on one with management. It's the opportunity to build those relationships. The third aspect is some form of facilitation or self-assessment. It can be the facilitation of getting 10 people in the

room or it can be the self-assessment to 100 people, 100,000 people telling us what the main risks in the organisation are. We've got the technology to do it these days. It's as easy as putting a survey on SurveyMonkey. (IA13)

The importance of maintaining ongoing communication throughout the audit with management was also evident in some cases:

What I actually do when I start ... is I get a person in the audit team to put together what I call the audit transparency matrix. There's 40-odd steps in every audit. I list them down on the left-hand side from risk assessment right through to disagreement with the audit issue at the board and who's allowed to represent on whose behalf. Then I put all the stakeholders across the top and then really just colour in the boxes for each step. I actually laminate that ... I get the team to take that to every meeting for six months. Why they take it to each meeting is that then they can sit down and say, oh, by the way, here we are. Here it is. Here's where we are. See, we're up to step 23 at the moment, that's why we're not involving you ... Then they can actually see. They can also hold us accountable to it. If I was going to jump from step 5 to step 30 without telling them, I rightly should be hauled over the coals in one way, shape or form. (IA13)

This also interacted with having appropriate expertise, for example, in the example provided by one participant as follows:

There's always, always going to be an element of subjectivity as to, are these the right controls and have they been drafted in the right way? That's when I will always 100 percent bring in an SME [subject matter expert] ... I would take a couple of recommendations from the business or the owner of the risk that I'm auditing. I would ultimately select, because I want it to be independent ... (IA12)

Consulting with management at the audit reporting stage was also seen as important in enhancing internal audit's credibility with both management and the board. The extent to which management was consulted on audit reports and provided with the opportunity to influence its contents and outcomes varied across participant organisations. In most cases, management were invited to review the draft report and provide representations, comments or clarifications, and generally to validate and agree with the findings. In some cases, management were given the opportunity to influence the recommendations that were included in the audit report "to make sure that recommendations are in a state that can be accepted and implemented by management" (IA3) prior to the report being submitted to the board, although it was generally clarified that management did not have the ability to just "wipe away if there's an issue" (IA8). Different approaches to consultation at the reporting stage are represented by the following quotes:

If we find an issue and we think there's a significant exception or whatever, at the earliest opportunity, we share it with the client and say, 'this doesn't look right to us, because it could be our misunderstanding or naïveté'. Hopefully, if that's the case, they're quickly there to educate us and point out where we've got it wrong, and we adjust in the report. Conversely, if we find serious negative findings, it won't stop us reporting it to [the board], but we'd prefer to also not only report what we found, but report what they [management] are doing to fix it ... So what we do is, we have a preliminary draft as an

informal consultation, and at that level, we try and – because we want to see it as our report, so we show people, at the end of the day, what we think, and take on board what they say. We might moderate or amend what we’re saying, but then we get to a stage where that’s what we’re going to report. (IA1)

Every audit finding is validated with relevant line managers at the project level and [senior management] level ... We don’t do recommendations, we do agreed management actions, so our audit team present to senior management. All of the audit findings, we go through it, we agree in workshop what the root causes are ... So once it’s been discussed and agreed and input obtained from local management the [senior] management and then anybody else that’s impacted by it and then [we] issue the report ... if it’s [the report] above a certain rating it’s sent to the chairman of the audit committee, managing director or whoever else senior people are impacted and I provide a succinct summary of the findings. Only those that are impacting the group ... I provide that to the board or the audit committee. (IA10)

There was also evidence of using informal reporting back to the board and operational management (during and at the end of the engagement) as a strategy to establish trust and support from the business, as exemplified through the following:

I would be very careful in terms of working through issues, for example, wherever possible I would do it face-to-face. I would walk through the issues, I would have meetings with them and then at my next meeting I would reiterate what we had discussed at the previous meeting. I would use their language that they use, I would in those meetings attempt to provide them value of things that may not end in the report, but to say just look here's a couple of other things that might be of value to you, have a think about it, those types of things. So I'd start to develop that rapport. (IA12)

The other thing to keep in mind is that experienced people like myself, we can see whether there's a problem six weeks or eight weeks in advance and so that's the time that you go and have a coffee with John who's in procurement ... I sit down with him and say, John, we're going to be reporting on this issue. Is there anything you can tell me now that's going to actually help us? All of a sudden, he's brought into the tent. He's part of the solution, not part of the problem. He's probably going to give us information that we'll all be desperately wanting and then we go away and work on it together. The personal relationships are absolutely critical. (IA13)

Participants also reported that monitoring of management implementation of remedial action required as a result of the audit was generally reported to the board or audit committee. This was a key aspect of enabling internal audit’s work in ESG areas by providing comfort to the board that “high risk or high impact actions” were being monitored and acted upon in a timely manner (IA7). This also provided internal audit’s report with credibility in ensuring that management were held to account and that they took the audit outcomes seriously (“if you were to issue a report and then just leave it, no one would take it seriously ... you really need that followed up”, IA8). It was suggested that audit committees and board members were becoming more focused and inclined to read internal audit reports and that this has had the impact of elevating the status of the function within the organisation. The following are exemplars of this process:

We monitor all of the agreed management actions, we report that to the board because we need to give them visibility and the emphasis on getting things done. So we report to the audit committee original plan deadlines, any [changed] deadlines, missed deadlines and when we go and do a follow up audit and if it's not what they say it is, we'll report that as well and we'll bump up the audit rating anyway ... [Until it's done] it just keeps being reported ... if management changes the reporting or the conclusion and the implementation dates, the audit committee's now asking management to come and provide them with the rationale why. (IA10)

We've got a reporting methodology so [prior to] each audit committee [meeting] we list all our outstanding high risk audit items ... So we will keep plugging away and saying, 'hey we still think this is an issue, no one's done anything about it, it's been open for six months', and you find once things go up the board level things happen pretty quickly ... So we generally only use that as a last resort but that is definitely an avenue for us to go to. (IA8)

4.5.4.4 Mobilising the consulting role of internal audit

Finally, the ability to mobilise and make explicit the consulting role of internal audit was another strategy employed by internal audit in embedding its involvement in ESG areas. This was evident both at the planning and reporting stages and involved invoking discourses around 'business case', 'adding value' and 'business strategy/objectives/outcomes' at these stages. The rationale for this strategy and exemplars of how this is mobilised are provided below:

Every conversation I've had with my managing directors they mention somewhere in the conversation you must add value and every internal audit function wants to add value ... we can clearly demonstrate the value we add by supporting the business outcomes. We don't look at the business output we look at the outcomes that a particular area requires. So we facilitate a process whereby business people define what are the outcomes for their particular area of responsibility and then work back from that and say what are the processes you have in place in order to deliver it. What are the risks that you have that impact the outcome or the processes you apply and then we define the audit program so we can clearly link every audit to a business outcome. (IA10)

Because you see such a broad function or a cross spread of the business, you can actually share information across departments ... I think that's where management really see [internal audit] being able to provide value add because you're an independent fresh set of eyes but you also have the time to really think about the issues [properly] ... and because you've [as internal auditor] got that holistic view of the business and you see where everything interacts. So first identifying what's the issue and what's the recommendation but not just a simple 'do this', it's actually being very specific in what the business needs to do to implement that recommendation ... [it] needs to be realistic and it needs to be commercially driven, commercially focused and I guess in line with the corporate objectives ... (IA8)

No matter how much challenge you've given management, what management thinks at the end of the audit ... about the outcome is the biggest challenge of an audit. They ask themselves a question, 'have they [internal audit] actually added value?' ... Eventually, is it helping me manage my business? That's the ultimate question. If you have a 'yes', then you'll definitely be respected. (IA9).

One of the key ways of demonstrating internal audit's value in doing this was by linking the internal audit plan to the organisation's strategy:

I think that, from my point of view, how do you show the value? To me – I've come to this realisation towards the end of my CAE career – it's the linking to the strategy. That's when you can show what you're doing and how it links and supports the strategy, that's when it becomes quite easy to show the value. (IA6)

4.6 Discussion

In analysing the findings of the study presented in Section 4.5 above, different theories were applied to consider how they might provide insights into current practice in explaining internal audit's involvement in ESG assurance and consulting and the strategies employed to embed their involvement in these areas. This section provides a discussion of this analysis.

4.6.1 Nature and drivers of internal audit's involvement in ESG areas

The results of the study supports prior findings of growing internal audit involvement in undertaking assurance and consulting roles in relation to ESG areas (Soh & Martinov-Bennie 2015). To the extent that internal audit has been deployed as a monitoring mechanism to mitigate perceived risks in ESG areas to which directors and managers have become sensitised, the findings are consistent with agency theory. However, the use of the IAF went beyond that of a monitoring mechanism in most cases, with the emphasis on the consulting aspect of internal audit's role. In outlining the rationale for their involvement in consulting on ESG areas, it would appear that a resource dependency perspective explains internal audit's role insofar as it is used as a partner by management in furthering the operational and strategic objectives of the organisation. These findings are consistent with those of prior research on internal audit's involvement in greenhouse gas and energy reporting assurance being driven on the one hand, by the need to protect shareholders' interests, and on the other, to assist management in driving internal improvements (Trotman & Trotman 2015).

In considering interviewees' broader perceptions of their involvement in ESG areas, it is clear that aspects of legitimacy theory and stakeholder theory are also relevant. The increased involvement in assurance over ESG areas as a response to the changing regulatory environment and participants viewing internal audit's involvement as critical to ensuring that their organisations continue to maintain their social 'licence to operate' is consistent with institutional legitimacy theory (Deegan 2002; Soh & Martinov-Bennie 2015). While it was evident that internal stakeholders, such as executive management and the board, were perceived to be the key stakeholders, some participants were aware that the interests of wider stakeholders, including shareholders and the community more broadly, needed to be recognised and managed, consistent with stakeholder theory (Freeman 1984).

4.6.2 Embedding internal audit's involvement

In considering the strategies employed by participants in embedding their involvement in ESG areas discussed in Section 4.5.4 above, it would appear that strategic legitimacy theory provides a useful lens to analyse the techniques employed. In most cases, it was evident that participants saw the need to incorporate ESG issues and risks into internal audit's scope for economic gain, and relied on establishing pragmatic legitimacy with internal stakeholders by emphasising the consulting aspect of internal audit's role and the value added to the business as a result of their involvement. This was necessary particularly for enabling internal audit's work that was more strategic in nature and was facilitated by various techniques, including consulting with management at the planning and reporting stages of engagement, and ensuring that the internal auditors possessed business acumen to enable them to frame these practical benefits to the organisation.

In some cases, participants appealed to the need to pursue the organisation's objective in a responsible manner (thereby establishing moral legitimacy) or the mandate derived from regulatory requirements (cognitive legitimacy). In the case of the latter, it was generally taken for granted that internal audit should be involved in ESG areas, at least from a compliance perspective. The focus on establishing pragmatic legitimacy is consistent with prior research examining the strategies employed by external assurance providers in securing legitimacy for sustainability assurance (O'Dwyer et al. 2011). As noted in O'Dwyer et al. (2011, p.49), "whilst pragmatic legitimacy is the easiest form of legitimacy to attain, its durability is in question due to its focus on short-term material gain and exposure to changes in the perceptions' of audiences". In light of this, it is useful to consider the range of strategies employed as outlined in 4.3 above, and the extent to which these were effective in maintaining legitimacy over time. These strategies are situated on a continuum of trust-based strategies to coercion-based strategies and are summarised in Table 4.2.

Several respondents pointed to coercion-based strategies as being less desirable, preferring to enrol trust and support from internal stakeholders in the first instance. For example, in referring to the strategy of using a regulatory mandate, it was suggested that, "it's far easier if people are coming with you, rather than [against you] – so we've taken the approach of education, cooperation, and as a last resort, we get heavy-handed" (IA1). Similarly, it was suggested that, where possible, discretion could be provided to business units in developing responses to identified control deficiencies, although "there are times when you have to put your foot down and go, 'this is a legislative requirement; it must be done'" (IA3).

Table 4.2 Trust-based versus coercion-based strategies

| Strategy | Trust-based strategies (Consensus building) | Coercion-based strategies (Drawing on authority) |
|---|---|--|
| Mobilising regulation and reputation | Appeals to common interest or protecting auditees' interests (reputation/liability) | Emphasis on logics of legal liability or negative reputational impact of non-compliance or risk failures |
| Mobilising expertise | Drawing primarily on 'soft skills', e.g. negotiation, communication, multidisciplinary team management to build consensus | Drawing on technical expertise to establish authority |
| Mobilising support through consultation | Consultation with managers at the planning, testing and reporting stage (particularly <i>prior</i> to reporting to the board/audit committee) | Consultation with senior management/board/audit committee at the planning stage or reporting directly to these stakeholders without prior consultation with management |
| Mobilising the consulting role of internal audit | Emphasising consulting aspect of internal audit's role with appeals to rhetorics of business case/objectives/strategy/adding value | |

The preference for a trust-based approach in the first instance was expressed by a participant as follows:

At the end of the day, the audit plan is approved by the board. So whether they like it or not, it's going to happen and so having somebody senior enrolled and having the endorsement of the executives and ... [the] board, it's going to happen anyway. Participate and suck it up would be sort of like the last piece I would need to do [with] that. (IA12)

The process of taking a trust-based strategy to embedding internal audit's involvement in new areas is summarised by the following quote:

You ask questions that make them think and you give them [recommendations] to consider. The challenge there is that at the same time don't intimidate them – you get a lot of information from them ... [and] we work with that information that we get. So our job is people – to work with people to establish that trust. We look like we know what we're talking about. Get that respect element so that they have us help them. The only way you do that is by listening – having not jumping in, not writing things which aren't true or making people feel like they're not doing a proper job. (IA5)

Interestingly, an example of the authority that internal audit can wield with an approach closer to the coercive end of the spectrum is provided by the same participant as follows:

There's a huge push ... to make sure that audit is a pivotal role in the organisation and that people respond to us quickly. We have loads of measures now that if we don't get information quickly, we report it. It reflects badly on management's reaction to us because there's the general belief that if you're not helping internal audit that you're either scared or you've got something to hide ... So there's the informal and formal feedback. The formal feedback's the audit report and the audit observation log ... The informal feedback is a lot more damaging ... [it is] the stuff that's the silent killer because you'll find people slowly just get walked out of the [organisation] and no one knows why. (IA5)

Depending on the nature (trust-based versus coercion-based) and success of the strategies used by internal audit, subsequent acceptance of internal audit's credibility and support for their involvement varied. Participants who took a predominantly trust-based approach in bedding their involvement in ESG areas by establishing their credibility through consensus building generally observed that trust in the function was reinforced over time with repeated interactions and there was progressively greater acceptance of, and support for, the function with decreased need to justify internal audit's ongoing involvement in ESG areas, for example, as described in the following:

I make sure that I have a weekly or at least a fortnightly team meeting of my teams. The reason why I do that is not only so I can hear where any of the issues are, but I get someone from the business to present every meeting. It might be the CFO that presents on day 1. It might be the head of HR the next time. It might be the head of public relations. He's got nothing. I ask him to tell me, what do you do as a job? What's happened is that they've seen the whole team now and the whole team's seen them, so all of a sudden, you've created that relationship. I remember when I was in [organisation], I had the head of HR come and speak to the team. She was notoriously disliking of internal audit. ...I convinced her to come. She sat down and she gave an overview and then she got about 10 brilliant questions. She turned to me and said, firstly I didn't realise the talent that existed in this team nor the good intentions of the team. Then from that moment onwards, we won her over. (IA13)

Particularly now as we've been going for a long time people understand what audit is. There's not this misconception of auditors out to get me. We're out to faithfully represent the status of the control environment and if we do that right, then people don't have a problem actually ... I think there's a good understanding of what we do, why we do it and then particularly how we do it and so I think that that's an important value add. I think the other part is that we've taught the organisation how to think about controls so that when they're doing their self-assessment they have a – having assessed others they're better equipped. (IA14)

This benefit was noted as being unique to the internal audit context as follows:

Because we're internal there's a lot more openness than if you were external. People are more happy to share their dirty laundry with you because you're part of the business, they've worked with you as opposed to somebody who's just coming in for two weeks,

they're never going to see them again. I've been here for five years so I know most of the people in the company and they know me, and I've helped them out with certain things and vice versa so you build up that relationship. (IA8)

These results do not support the suggestion that pragmatic legitimacy based on practical gain is short-term (O'Dwyer et al. 2011), as our interviews strongly suggest that mobilisation of discourses of value add and business strategy/objectives were used to build trust in internal audit within the organisation. In this context, the legitimacy established was apparently stable and reinforced through repeated interactions with internal stakeholders. On the other hand, the use of coercion-based strategies is more transient in nature and internal audit's involvement in ESG areas needs to be potentially re-negotiated.

4.7 Conclusion

This study aimed to examine the nature of IAFs' involvement in relation to ESG areas and strategies employed by internal auditors in securing support from internal stakeholders to embed their involvement in these areas. Participant organisations reported diverse and increasing IAF involvement in ESG areas including environmental (e.g. hazardous waste management, energy usage, greenhouse gas emissions), social (e.g. workplace health and safety, employee retention and turnover, supply chain, community impacts and relations) and governance (e.g. IT, culture, ethics, strategic risk, governance arrangements) aspects. The drivers for internal audit's involvement in ESG areas may be attributed to a large extent to senior management and the board's greater awareness and sensitivities to broader ESG risks faced by the organisation, as a result of the changing regulatory environment and stakeholder demands, and the need to manage these risks. There was also evidence of internal audit driving the agenda to expand into ESG areas within the organisation, although it was clear that in order to effectively do this, support had to be obtained from a range of different internal stakeholders.

In analysing the findings of the study, it was evident that no single theory could adequately explain the nature and drivers of internal audit's involvement in ESG areas. Multiple theories were, therefore, employed to provide greater understanding of these. The results suggest that while agency theory explains the risk minimisation role played by the IAF in these new areas, there are also aspects of the function's involvement that can be explained using institutional legitimacy theory, stakeholder theory and resource dependency theory. Finally, the use of strategic legitimacy theory provides useful insights into the means by which internal auditors embed their involvement in new, ESG areas.

Given the influential role of internal audit within the organisation in facilitating the adoption of new practices (O'Dwyer et al. 2011), for example in "leveraging its 'seat at the table' to help influence the global adoption of integrated reporting" (IIA 2013e, p.2; IIRC 2015), there are several avenues for future research that could be pursued.

There are obvious implications for internal audit's independence and objectivity that will require investigation as the consulting aspect of internal audit's role becomes increasingly important in practice. It would also be worthwhile to investigate the means by which successful internal auditors concurrently manage the assurance and consulting aspect of their roles in meeting the divergent needs and expectations of different internal (and potentially external) stakeholders. The use of rotation programs within the IAF and the use of IAF as a management training ground, in terms of the impact on the IAF as well as for the organisation or individuals having completed stints in such programs, are also areas worthy of further investigation.

The results of the study have practical implications for internal audit professionals in embedding their involvement in new areas. The study confirms the importance of the framing and communication of risk information (Power 2007) and the suggestion that "how auditing is written up and reported is an important part of auditor credibility, a credibility which in turn is reinforced by ... regulatory ... systems" (Power 2003, p.391). The findings reveal that individuals at different levels of the organisation respond differently to internal audits of new areas. For example, while some stakeholders perceived these 'new' audits to be a means to open a dialogue to find solutions to organisational problems, others perceived them to be a tool to be feared (e.g. in rationalising business operations), and were consequently less inclined to facilitate the audit process.

The study finds that strategies based on building trust and consensus, particularly the mobilisation of discourses of value add and business strategy/objectives, were effective in embedding internal audit's involvement into new, ESG areas. Participants reported success in involving management in the audit planning process and by linking reporting of the audit outcomes to overall business objectives or strategies in making explicit the risk and the importance of managing these risks appropriately. In the context of emerging risks, such as sustainability risks where the impacts are not immediately perceptible by line managers, the technique of framing these risks in the logics of enterprise and bottom line appeal to the sensitivities of management. It would be useful for future research to investigate the applicability of the different types strategies employed by internal auditors to different types of organisations and organisational cultures.

This process of involving management in what is assured bears similarity to that reported in O'Dwyer et al. (2011) of an external assurance provider engaging users over the subject matter of the assurance engagement. However, it is likely that users wield greater power over the external assurance provider as compared to the internal auditor. In the context of the internal auditor, the study found that in some instances, risks were identified/determined through processes not necessarily involving management. As such, while management was invited to provide input on the coverage of the risk map, the nature of the consultation was more focused on the process and subsequent conduct and reporting of the engagement.

The study is subject to limitations that need to be considered in interpreting its results. In addition to the usual criticisms of qualitative research (Power & Gendron 2015), the interviews for this study were conducted only with internal auditors. The perspective of key internal stakeholders, including the board, audit committee and management, are thus not represented, although three participants provided insights from the former two categories. Future studies may undertake investigation of similar issues examined in this study from the perspective of these other stakeholders. Future studies could also undertake more in-depth case based approaches, for example, in observing risk mapping processes (e.g. brainstorming sessions with management) and the extent to which different organisational actors influence or subvert the outcomes of these processes. Direct observation of reporting processes (e.g. audit committee or board meetings) and subsequent discussions would also provide interesting insights.

4.8 References

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Chapter 5

Conclusion

5.1 Introduction

This thesis was motivated by the evolving nature of internal auditing within the context of growing expectations and accountability pressures on current corporate reporting and governance practices. The practice of internal auditing has recently undergone significant shifts from its traditional financial remit (Krogstad et al. 1999; Sarens 2009; Arena & Sarens 2015). In the international context, a large global study reported that current and expected focus areas for internal audit are now generally non-financial in nature (Allegrini et al. 2011). Likewise, in the Australian context, it has been reported that a clear majority of internal audit's time is spent on non-financial areas (Protiviti & IIA-Australia 2011).

Against this background, this thesis addresses three central research aims.

- **What** is the nature of internal audit's involvement in ESG areas?
- **Why** is internal audit involved in ESG areas?
- **How** does internal audit facilitate its expansion and embed itself into emerging ESG areas?

This thesis utilises a mixed methods sequential explanatory design to investigate these research aims. In the first stage of the thesis, a survey was undertaken to examine the first two research aims. Given the paucity of prior research in this area, the survey was designed to facilitate exploratory investigation of the phenomena under study. The results from the survey are reported in Papers 1 and 2. Semi-structured interviews were conducted in the second stage of the thesis to examine the third research aim above, and to explore in greater detail themes that began to emerge as the survey data was analysed and modelled in Papers 1 and 2 (Ivankova et al. 2006). The interviews provided depth and nuance to the findings in the earlier papers thus responding to all three research aims.

This chapter summarises and synthesises the findings across all three papers in Section 5.2. It then outlines the contributions and implications of the study in Section 5.3, limitations of the study and avenues for future research in Sections 5.4 and 5.5 respectively, and closes with concluding reflections in Section 5.6.

5.2 Findings

5.2.1 Paper 1

Paper 1 set out to investigate the current state of play with respect to internal audit's involvement in ESG areas and sets the overall context to the thesis. It specifically examined internal audit's involvement in providing assurance and consulting over a comprehensive range of specific ESG issues. To identify emerging priorities in terms of specific ESG issues, and the internal audit profession's capacity to respond to these, the paper also explored internal audit practitioners'

perceptions of the current and future importance of these issues and the adequacy of their skills and expertise in meeting the challenges associated with their involvement in these areas.

Using data from a survey of CAEs and service provider partners of internal audit services, this initial paper found that respondent IAFs were involved in providing assurance and consulting on a diverse array of ESG issues, with greater involvement in assurance services relative to consulting services. Respondents reported the highest levels of involvement and overall competency in governance issues, followed by social and environmental issues respectively. Governance issues were also perceived to be of greatest current importance to the internal audit function, although environmental issues were generally expected to increase in importance in coming years, with a corresponding need for IAF skills in environmental areas in greatest need of further development. Paper 1 has been published for academic audiences in *Managerial Auditing Journal*, but the results have also been provided in a separate report to IIA-Australia and internal audit practitioners at their request. This report is provided in Appendix F.

5.2.2 Paper 2

Having established in Paper 1 the varying nature and breadth of internal audit's involvement in ESG areas, with relatively lower levels of involvement in environmental and social areas, Paper 2 aimed to further our understanding of this phenomenon by examining factors associated with the extent of internal audit's involvement in environmental and social assurance and consulting. Informed by the extant internal auditing, governance and sustainability assurance literature, this paper used data collected in the survey in Stage 1 to model the association between specific governance factors (audit committee oversight, senior management support, IAF interaction with sustainability committee), IAF factors (structure/sourcing, maturity), organisational sustainability practices (external reporting and use of external assurers) and the extent of internal audit's involvement in environmental and social assurance and consulting activities.

The findings indicate that management support for internal audit's involvement in sustainability activities is the key factor associated with the extent of the IAF's assurance and consulting involvement in these areas. In addition, IAFs in organisations operating in sensitive industries and with higher levels of external reporting of sustainability issues reported greater involvement in assurance over environmental and social issues and consulting over environmental issues.

The results also suggest that audit committee oversight, IAF maturity and the presence of a Big-4 auditor are associated with the level of IAF involvement in sustainability areas, but that these factors do not apply uniformly across different types of sustainability issues (environmental versus social) and internal audit activity (assurance versus consulting), thus suggesting the need for a more nuanced approach to investigating different aspects of internal audit's roles and activities both within the sustainability context, and more broadly.

5.2.3 Paper 3

In addition to adding depth and nuance to the survey findings in Papers 1 and 2, using semi-structured interviews, Paper 3 explores the organisational dynamics of internal audit's involvement in ESG areas in practice. In particular, the paper aimed to investigate how internal auditors facilitate their expansion and embed their role into emerging ESG areas. In so doing, it responds to the finding in Paper 2 that management support is a key factor associated with the extent of the IAF's assurance and consulting involvement in ESG areas and subsequent calls for investigation of how such support is obtained in practice. To obtain a richer understanding of these processes in practice, Paper 3 adopted a multi-theoretical perspective to analysing interview data with CAEs, senior internal auditors and service providers of internal audit services at the partner (or equivalent) level.

The findings in Paper 3 reinforce Papers 1 and 2 results with participants noting diverse and increasing involvement in ESG areas. Increasing involvement in these areas was attributed to a large extent to the changing regulatory environment and corresponding heightened awareness and sensitivities of the board and management to the importance of managing risks associated with emerging ESG areas, particularly in the current era of growing transparency and accountability pressures from stakeholders. Paper 3 results also provide further support to the need to develop IAF skills and expertise in various ESG areas reported in Paper 1 and provide a rationale for why it is critical for the IAF to have the appropriate skills and expertise to be able to enter new areas of emerging importance. Having the relevant technical expertise imparts credibility to the IAF by allowing internal auditors to 'speak the language', which in turn ensures local management support and buy-in, thus facilitating the IAF's work in these areas. Having the necessary skills and expertise also allows the IAF to understand and identify relevant risks and assess or provide input into the design of controls, as well as facilitating the oversight of the work of external subject-matter experts.

The findings of Paper 3 also indicate that internal audit has the capacity to be influential in embedding sustainability assurance (O'Dwyer et al. 2011) and to be the 'glue' in driving integrated thinking within organisations (Druckman 2013; IIA 2013c; IIRC 2015). It was evident in some cases that internal audit's involvement in emerging ESG areas was driven by CAEs' personal beliefs, and/or IAFs' wider knowledge and overview of organisational risks given its unique position within the organisation. It was apparent, however, that this was insufficient by itself for internal audit to enter effectively emerging ESG areas. To be able to conduct its engagements effectively and make sound recommendations that were well-received by management and the board, internal audit had to obtain support from internal stakeholders.

The findings of Paper 3 specifically highlight the need for support at the board and management levels, and for internal auditors to employ a range of strategies to obtain such support. IAF

strategies reported mobilising the rhetoric of regulation and reputation, mobilising (different types of) expertise (through various means), mobilising transparency and consultation, and mobilising the consulting role of the IAF. The paper then situates these strategies on a continuum between trust-based and coercive-based strategies, and suggests that strategies that engender and build trust are more effective in embedding internal audit's involvement in ESG areas over time as these resulted in smoother entry and conduct of future engagements.

Finally, Paper 3 reported that agency theory, as the dominant theory applied to governance research, was inadequate in explaining the organisational dynamics of internal audit's involvement in ESG areas, and the use of alternative (in some cases, overlapping) theories enabled richer insights and understanding of this phenomenon (Cohen et al. 2008).

5.3 Contributions and implications

This section summarises the contributions of the thesis to the academic literature and professional practice, as well as the implications of the findings. Further discussion and details on these contributions and implications are provided in each paper.

The findings of this thesis add to recent findings that the nature and focus of internal auditing are expanding and evolving with a transition to an increasing focus on non-financial areas (Cohen et al. 2010; Allegrini et al. 2011; Soh & Martinov-Bennie 2011). By providing empirical evidence of internal audit's involvement in a comprehensive set of specific ESG issues in Paper 1, the study extends prior research that either adopted broad conceptions of sustainability without consideration of the diversity of sustainability issues (e.g. Casey & Grenier 2015), or only examined discrete ESG aspects (e.g. Blewett & O'Keeffe 2011; Trotman & Trotman 2015). The study reports heterogeneous levels of internal audit's involvement in specific ESG issues. In addition to providing a platform for future research to leverage and build upon, this initial evidence reported in Paper 1, together with evidence on internal audit practitioners' perceptions of the current and future importance of ESG issues and the adequacy of their skills and expertise in meeting the challenges associated with their involvement in these areas, facilitates the identification of emerging priorities and the profession's capacity to respond to these. This provides useful input to professional bodies in developing their professional education offerings. The findings reported in Paper 1 also enable internal auditors to benchmark their activities against the reported results.

In examining assurance and consulting aspects of internal audit's role separately, the thesis also extends the extant literature that has focused on the assurance aspect of internal audit's role, as well as more recent studies reporting increasing emphasis on the consulting aspect in practice (Sarens & De Beelde 2006a, 2006b; Soh & Martinov-Bennie 2011; Anderson 2016). The thesis findings suggest that while internal auditors are more commonly involved in assurance engagements, there

is not necessarily a clear dichotomy between assurance and consulting services, particularly with more ambiguous perceptions of what consulting services constitute. The findings also reinforce the importance of the need to consider the consulting aspect of internal audit's role, as a means for internal audit to draw upon to expand into new areas in which it has not traditionally been involved. Collectively, these results suggest that future research might benefit from taking a more nuanced approach to investigating different aspects of internal audit's roles and activities both within the ESG context specifically as well as more broadly.

The thesis also extends the sustainability assurance literature relying on archival data from organisations' sustainability reports and its focus on broad firm and institutional characteristics (e.g. Peters & Romi 2015). Utilising survey and semi-structured interview data, the thesis examines internal organisational factors, including internal audit characteristics, which are generally not reported in sustainability reports (Ballou et al. 2012) but have been found to be associated with internal audit's roles and effectiveness (Gramling et al. 2004; Arena & Azzone 2009; Cohen & Sayag 2010; Leung et al. 2011; Soh & Martinov-Bennie 2011; Sarens et al. 2012a). By engaging with internal audit practitioners directly, the thesis also responds to calls for studies to investigate the back stage of assurance practice (Power 2003) to further our understanding of practical implementations of audit practices (Robson et al. 2007) through fieldwork and greater engagement with practitioners (Power 2007). Paper 3 also contributes to the growing stream of governance and assurance literature advocating for multi-theoretical perspectives to obtain a better understanding of the phenomena under study (Roberts et al. 2005; Brennan & Solomon 2008; Cohen et al. 2008; Christopher 2010; Hahn & Kühnen 2013; Cohen & Simnett 2015; Trotman & Trotman 2015).

The findings of this thesis have implications for policy makers, professional bodies and practitioners. The results are useful for policy makers in relation to the role of the IAF in providing assurance on ESG issues, and have wider applicability such as in the context of IR. For professional bodies with internal auditor members such as the IIA, the results provide considerations relevant to how they might best respond in supporting the professional practice and training needs of its current member base while also meeting the educational needs of the future generation of internal auditors within the context of a diverse membership base and evolving profession (CIIA 2015; IIRC 2015). The need for commercial and business acumen in contributing to the IAF's adaptability across contexts, its ability to communicate effectively with a range of stakeholders, and build interpersonal relationships and trust was evident in the findings of Paper 3 consistent with findings of recent studies (PwC 2015; Mouri & Anderson 2017). Professional bodies like the IIA need to consider how they might best assist their membership to develop these skills, particularly career internal auditors who may not have a commercial background.¹⁴

¹⁴ In describing his expectations for the future of internal auditing in the era of big data, one interview participant suggested that, "I think the next journey ... is we're going to be much more important narrators rather than just a trusted business advisor ... We're going

The IIA will also need to consider how to provide continued leadership in defining areas and means by which IAFs provide value to organisations and their stakeholders (Lenz & Hahn 2015). This will be arguably more difficult with ESG issues, particularly in relation to environmental and social issues, as members will likely have varying priorities across industries and types of organisations.

For CAEs and internal auditors, the expanding scope and expectations of the IAF raise issues of whether and how IAFs will remain adequately resourced and adaptable in meeting the growing demands of stakeholders in an increasing number of areas outside of the function's traditional financial and compliance focus. The findings also indicate that internal auditors are generally playing a more reactive rather than proactive role in identifying and responding to emerging ESG risks as a result of regulatory changes and related mandated compliance driving their involvement in ESG areas. Paper 3 reveals complexities in the IAF entering new, ESG areas, which is only possible with support across various internal stakeholders within the organisation. However, the IAF is ultimately responsible to the audit committee/board, and unless ESG issues are on the agenda for these stakeholders, it is not likely that the IAF will devote much time and resources to these issues. Paper 3 provides insights into how some IAFs are able to drive the agenda more proactively within their organisations, and presents strategies that may be employed by internal auditors to gain board and management support to facilitate their entry into new areas.

Paper 3 also reports a range of means by which IAFs obtain the requisite skills and expertise required for ESG areas. In addition to supplementing as necessary the IAF's resources with subject-matter external experts, internal audit may also work with internal expert 'allies', or build their internal capacity through a deliberate recruitment strategy. This need for specific expertise can also be met through employee rotation programs and using the IAF as a management training ground. In addition to ensuring the IAF has an appropriate technical skillset, this also provides the IAF with ambassadors who understand the nature and purpose of internal auditing, who will go back into the business, potentially facilitating future IAF engagements.

Finally, the findings also have implications for external assurance providers. The evolution of internal audit to focus on non-financial issues and the consulting aspect of its role raises questions for the relevance of the IAF to the external financial report auditor, and the reliance that the external auditor may place on the IAF. The results in Paper 1 relating to the IAFs' use of standards in performing ESG engagements highlights that these differ from those used by external assurance providers reported by prior studies (Martinov-Bennie et al. 2012). The findings of Paper 3 in relation to increasingly diverse IAFs have implications for the coordination between internal and external ESG assurance providers. The findings also support the suggestion that internal audit may

to be storytellers of the organisation if we get that analysis of data piece done right ... I think that the need for greater engagement will just continue, so we need to be communicators." (IA13)

be enrolled as an influential ally by external assurance providers in diffusing sustainability assurance practices within organisations (O'Dwyer et al. 2011) and in facilitating the development of combined assurance models (Simnett et al. 2016).

5.4 Limitations

This thesis is subject to limitations that need to be considered in interpreting the results.

The sample of respondents to the survey in Papers 1 and 2 was limited to a specific subset of the membership of the IIA in Australia and thus a potential self-selection bias may be present. Caution therefore needs to be exercised in generalising the findings from these papers. While the aim of Paper 3 was to develop in-depth understanding of the organisational dynamic of internal audit's involvement in ESG areas, it is noted that interviews were conducted only with internal auditors. The perspective of other key internal stakeholders including the board, audit committee and management are thus not represented, although a number of participants were able to draw on their board and audit committee roles in the interviews.

There are also inherent limitations associated with using a survey method for Papers 1 and 2 that need to be considered, including potential question interpretation issues, response bias and social desirability bias (Groves, Fowler, Couper, Lepkowski, Singer & Tourangeau 2009). To mitigate these biases, the survey instrument was carefully worded and subjected to rigorous pilot-testing, and contained assurance of the anonymity of respondents. The survey instrument, given the exploratory nature of the study and the aim to capture a wide range of activities that may be performed under each (IIA 2009a, 2010c, 2013c), purposefully adopted a broad conception of assurance and consulting services and did not provide specific definitions of assurance and consulting services. Data collected in Paper 3 confirms that there is a range of activities considered by participants as assurance or consulting based, and some ambiguity as to where the boundaries are crossed between assurance and consulting.

The use of an anonymous cross-sectional survey to collect data in Stage 1 limits evidence collected on respondents' perceptions (and future expectations) on the nature and extent of internal audit's involvement in specific ESG areas to the time when the survey was completed. While it is likely that areas of involvement, priorities and future expectations shift over time, the substance of the findings reported in Paper 1 are reinforced by Papers 2 and 3, particularly Paper 3 for which interview data was collected in subsequent years following the conduct of the survey in Stage 1. Collectively, the three papers provide strong evidence of the diverse nature of internal audit's involvement in ESG assurance and consulting activities, driven predominantly by (or in response to) regulatory mandates.

Finally, the findings presented in Paper 3 necessarily relied on interpretation of the interview data. To ensure the reliability and validity of the data, the interviews were transcribed by a professional

transcription service and coded using a scheme developed based on the reading and discussion of the transcripts between the researchers. The coding scheme was subsequently refined as the data was analysed using an iterative process during which the interpretations were revisited, reflected on and challenged. Illustrative quotes from interviews provided within the paper also serve to support the data analysis and interpretations drawn. These ensured that the findings reported in Paper 3 are trustworthy and worth taking into account (Power & Gendron 2015).

5.5 Future research

There remains a significant amount of research to be undertaken in relation to internal auditing and its involvement in ESG areas. Given the current trajectory of internal audit's expansion of its role and elevation of its status as a governance mechanism, this area is likely to continue to receive increasing attention and become more important. The ongoing growth of transparency and accountability pressures (Brivot, Gendron & Guénin 2017) as regulatory reforms¹⁵ and expanded corporate reporting initiatives, such as IR, develop and gain traction internationally will continue to increase importance and demand for IAF involvement in non-traditional areas (CHIA 2015). This section provides some suggestions for future research.

As the consulting role of internal auditing becomes increasingly mobilised, there are several avenues for future research. Paper 3 reveals that one of the strategies employed by internal audit to gain support for internal audit's entry and involvement in these new areas is mobilising the consulting role of the IAF and invoking discourses around 'adding value'. It would be useful for future research to continue to build on the examination of internal audit's consulting work and its implications (Stewart & Subramaniam 2010; de Zwaan et al. 2011). In analysing the interview data collected for Paper 3, it became apparent that the perceived distinction between assurance and consulting was not necessarily clear in practice. Participants inherently felt that they had to 'add value' to their organisations, but perceptions on whether certain activities constituted consulting services differed.

In addition to undertaking more focused examination on internal audit's consulting work, future research could undertake more in-depth investigation of different stakeholders' expectations of internal audit, the ways in which internal auditors and other stakeholders consider that the IAF adds value, and the extent to which these are consistent or divergent (PwC 2013, 2015; Seago 2015; Anderson 2016; Witzany & Harrington 2016; Mouri & Anderson 2017). The potential implications for the independence and objectivity of the IAF and the means by which internal auditors straddle the need to be independent and objective with the need to align themselves with management in order to be effective also needs further investigation (Brody & Lowe 2000; Ahlawat & Lowe 2004; Van Peursem 2005; Ahmad & Taylor 2009; Roussy 2015). The

¹⁵ For example, the European Union's (EU) Directive 2014/95/EU will require large companies in the EU to disclose ESG and diversity information from 2018 onwards.

implications of the use of the IAF as a management training ground and programs such as auditor rotation programs should also be examined (Stewart & Subramaniam 2010).

The framing and communications of risk information is also an area of potential interest for future research to investigate. The findings in Paper 3 reveal that individuals at different levels of the organisation respond differently to internal audits of new areas. For example, while some stakeholders perceived internal auditing to be a means to open a dialogue to find solutions to organisational problems, others perceived auditing to be a tool to be feared (e.g. in rationalising business operations), and were consequently less inclined to facilitate the audit process. These findings support the importance of the framing and communication of risk information (Power 2007) and “how auditing is written up and reported is an important part of auditor credibility, a credibility which in turn is reinforced by ... regulatory ... systems” (Power 2003, p.391). Future research may thus examine the impact of different reporting approaches by IAFs on stakeholders’ perceptions of the function’s credibility.

Alternative research methods, including case studies, would be particularly useful in furthering our understanding of specific issues in relation to internal audit’s involvement in ESG areas at the engagement level, such as the conduct of specific subject matter engagements, and challenges faced by IAFs as they become more involved in ESG areas. It was beyond the scope of this thesis to examine the extent to which internal audit’s involvement in ESG areas drives substantive change in directing and improving ESG operations (Modell 2007; Blewett & O’Keeffe 2011). Using a case study method, future research could undertake more in-depth investigation of IAF efforts to improve organisations’ ESG operations, performance and reporting. There is also scope for future research to extend Paper 3 findings and investigate other ways in which internal audit might take a more strategic and proactive approach to including emerging ESG risks on the agenda at the board and management levels and the impact of organisation type and/or culture on the ability to employ these approaches.

The interface between IAFs and other assurance providers and functions is a fruitful area for future research. As IAFs’ scopes expand to include assurance and consulting on ESG issues, the development of combined assurance models will be an important area to examine (Baker 2010; Sarens et al. 2012b; Decaux & Sarens 2015; Huibers 2015). Research may examine the development and implementation of combined assurance models and coordination amongst various assurance providers and functions, including the organisation’s specialist functions responsible for risk management and compliance in mitigating assurance gaps (Sarens et al. 2012b; IoDSA 2016). The role of the IAF vis-à-vis risk management functions and management in relation to ESG issues will also require specific attention to ensure that established roles and responsibilities remain appropriate (Sobel 2015; IAASB 2016b). It would also be useful for future research to examine the applicability of the findings in relation to the strategies employed by internal audit in facilitating its

expansion into new areas for other parties such as external assurance providers and other internal functions such as the sustainability or risk management functions.

The ability of IAFs to supplement their skill and competency base with subject matter specialists in effectively and efficiently conducting ESG assurance and consulting engagements also warrants investigation (Piper 2016). In moving towards integrated assurance, it will also be necessary to examine the responsibilities of external assurance providers, the extent to which internal audit substitutes or complements their work (Ackers & Eccles 2015), and their ability to rely on the work of IAFs in ESG areas (IIRC 2014a; IAASB 2016a). Similar issues to those examined in the context of the external auditor's reliance on the IAF for the financial report will need to be revisited and expanded upon within this context.

Data collection for this thesis was limited to CAEs and service providers of internal audit services. Future research may examine the internal audit's involvement from the perspective of other stakeholders, such as management, audit and risk committees and sustainability committees to obtain a more holistic view on IAFs' effectiveness in conducting these engagements, and the extent to which they are meeting the needs of various stakeholders. Finally, extending the research to other jurisdictions would prove useful in examining the consistency of the results reported in this thesis.

5.6 Concluding reflection

The personal motivation for this thesis arose from a previous role in IIA-Australia, where I had the opportunity to observe the diversity of internal auditing and the challenges faced by internal auditors in practice first hand. My reflection as I conclude this thesis is that internal auditing continues to be a fascinating area for research as the profession and practice continues to evolve. Given their diverse roles in practice and unique position within the organisation, internal auditors have unparalleled insights into organisational practice. I conclude by commending internal auditing as a fruitful area for stimulating and rewarding inquiry to other researchers, not least because of the passion and vision of the interesting individuals who undertake this important function within organisations.

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Appendix A & B of this thesis have been removed as they may contain sensitive/confidential content

Appendix C: Survey instruments

Survey instrument: CAE version

1. What type of organisation do you work in?

- ☐ Publicly-traded (listed) company
- ☐ Privately held (non-listed) company
- ☐ Government - Federal
- ☐ Government - State
- ☐ Government - Local
- ☐ Not-for-profit/non-government organisation
- ☐ Other, please specify: _____

2. In which state or territory is your organisation headquartered in Australia?

- ☐ NSW
- ☐ ACT
- ☐ VIC
- ☐ TAS
- ☐ SA
- ☐ WA
- ☐ NT
- ☐ QLD

3. In which industry does your organisation primarily operate in (ANZSIC divisions used)?

- ☐ Accommodation and Food Services
- ☐ Administrative and Support Services
- ☐ Agriculture, Forestry, and Fishing
- ☐ Arts and Recreation Services
- ☐ Construction
- ☐ Education and Training
- ☐ Electricity, Gas, Water and Waste Services
- ☐ Financial and Insurance Services
- ☐ Health Care and Social Assistance
- ☐ Information Media and Telecommunications
- ☐ Manufacturing
- ☐ Mining
- ☐ Professional, Scientific and Technical Services
- ☐ Public Administration and Safety
- ☐ Rental, Hiring and Real Estate Services
- ☐ Retail Trade
- ☐ Transport, Postal and Warehousing
- ☐ Wholesale Trade
- ☐ Other, please specify: _____

4. Is your organisation externally audited by a Big-4 audit firm?

- ☐ Yes
- ☐ No

5. Is your organisation registered to report greenhouse gas emissions, energy consumption and production data under the National Greenhouse and Energy Reporting (NGER) Act 2007?

- ☐ Yes
- ☐ No
- ☐ Not sure

6. For the following **environmental issues**,

- (i) Is your internal audit function (IAF) involved in providing **assurance and/or consulting** on the issue? *Please tick either, both, or neither as applicable.*
- (ii) Is information related to the issue **externally reported** by your organisation?

| | (i) IAF providers of assurance and/or consulting | | (ii) Is issue externally reported | |
|---|--|--------------------------|-----------------------------------|-----------------------|
| | Assurance | Consulting | Yes | No |
| Energy usage | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Materials usage | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Greenhouse gas emissions | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Hazardous waste disposal/management | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Water management | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Impacts on biodiversity | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Other environmental issue/s, please specify: _____ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |

7. From your organisation's perspective, for the following environmental issues,

- (i) How would you rate the **current importance** of the issue for the internal audit function (IAF)?
- (ii) How has emphasis on the issue changed in the **last five years** (increasing, constant, decreasing)?
- (iii) What is your expectation of emphasis on the issue in the **next five years** (increasing, constant, decreasing)?

| | (i) Current importance of issue to IAF | | | | (ii) Change of emphasis over last 5 years | | | (iii) Your expectations of emphasis over next 5 years | | | |
|--|--|-----------------------|-----------------------|-----------------------|---|-----------------------|-----------------------|---|-----------------------|-----------------------|-----------------------|
| | Not important at all | Slightly important | Moderately important | Important | Very important | Increasing | Constant | Decreasing | Increasing | Constant | Decreasing |
| Energy usage | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Materials usage | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Greenhouse gas emissions | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Hazardous waste disposal/management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Water management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Impacts on biodiversity | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Other environmental issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

8. For the following **social issues**,

(i) Is your internal audit function (IAF) involved in providing **assurance and/or consulting** on the issue? *Please tick either, both, or neither as applicable.*

(ii) Is information related to the issue **externally reported** by your organisation?

| | (i) IAF providers of assurance and/or consulting | | (ii) Is issue externally reported | |
|--|--|--------------------------|-----------------------------------|-----------------------|
| | Assurance | Consulting | Yes | No |
| Occupational health and safety (OH&S) issues | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Employee retention and turnover | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Training and education | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Supply chain issues | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Human rights issues | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Community impacts and relations | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Donations and sponsorships | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Product responsibility | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Customer privacy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Other social issue/s, please specify: _____ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |

. From your organisation's perspective, for the following **social issues**,

- (i) How would you rate the **current importance** of the issue for the internal audit function (IAF)?
- (ii) How has **emphasis** on the issue changed in the **last five years** (increasing, constant, decreasing)
- (iii) What is your expectation of **emphasis** on the issue in the **next five years** (increasing, constant, decreasing)?

| | (i) Current importance of issue to IAF | | | | (ii) Change of emphasis over last 5 years | | | (iii) Your expectations of emphasis over next 5 years | | | |
|--|--|-----------------------|-----------------------|-----------------------|---|-----------------------|-----------------------|---|-----------------------|-----------------------|-----------------------|
| | Not important at all | Slightly important | Moderately important | Important | Very important | Increasing | Constant | Decreasing | Increasing | Constant | Decreasing |
| Occupational health and safety (OH&S) issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Employee retention and turnover | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Training and education | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Supply chain issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Human rights issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Community impacts and relations | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Donations and sponsorships | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Product responsibility | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Customer privacy | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Other social issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

10. For the following governance issues,

(i) Is your internal audit function (IAF) involved in providing **assurance and/or consulting** on the issue? *Please tick either, both, or neither as applicable.*

(ii) Is information related to the issue **externally reported** by your organisation?

| | (i) IAF providers of assurance/consulting | | (ii) Is issue externally reported? | |
|--|---|--------------------------|------------------------------------|-----------------------|
| | Assurance | Consulting | Yes | No |
| Governance structure | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Organisational culture | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Business ethics | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Conflicts of interest | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Remuneration structures | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Diversity (employee/board diversity) and equal opportunity | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Stakeholder dialogue | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Risk management | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Strategic risks | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Corruption and bribery | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Anti-money laundering | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Fraud | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Whistle-blower schemes | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Other governance issue/s, please specify: _____ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |

11. From your organisation's perspective, for the following **governance issues**,

- (i) How would you rate the **current importance** of the issue for the internal audit function (IAF)?
(ii) How has emphasis on the issue changed in the **last five years** (increasing, constant, decreasing)
(iii) What is your expectation of emphasis on the issue in the **next five years** (increasing, constant, decreasing)?

| | (i) Current importance of issue to IAF | | | | (ii) Change of emphasis over last 5 years | | | (iii) Your expectations of emphasis over next 5 years | | | |
|--|--|-----------------------|-----------------------|-----------------------|---|-----------------------|-----------------------|---|-----------------------|-----------------------|-----------------------|
| | Not important at all | Slightly important | Moderately important | Important | Very important | Increasing | Constant | Decreasing | Increasing | Constant | Decreasing |
| Governance structure | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Organisational culture | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Business ethics | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Conflicts of interest | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Remuneration structures | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Diversity (employee/board diversity) and equal opportunity | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Stakeholder dialogue | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Risk management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Strategic risks | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Corruption and bribery | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Anti-money laundering | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Fraud | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Whistle-blower schemes | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Other governance issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

12. For the following environmental issues,

- (i) How would you rate your internal audit function's (IAF) **current competency**, in terms of its knowledge and ability to perform assurance and/or consulting engagements on the issue?
- (ii) Please indicate whether you consider your internal audit function's (IAF's) skills and expertise for the issue as '**adequate**' or '**needs to improve**'.
- (iii) Please indicate whether your organisation uses an **external assessor** on the issue. *Leave unchecked if 'No'.*

| | (i) Current IAF competency level | | | | (ii) Adequacy of IAF skills/expertise | | (iii) External assessor used | |
|--|----------------------------------|-----------------------|-----------------------|-----------------------|---------------------------------------|-----------------------|------------------------------|--------------------------|
| | Extremely poor | Below average | Average | Above average | Excellent | Adequate | Needs to improve | Yes |
| Energy usage | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Materials usage | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Greenhouse gas emissions | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Hazardous waste disposal/management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Water management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Impacts on biodiversity | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Other environmental issue/s, please specify" | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |

13. For the following social issues,

- (i) How would you rate your internal audit function's (IAF) **current competency**, in terms of its knowledge and ability to perform assurance and/or consulting engagements on the issue?
- (ii) Please indicate whether you consider your internal audit function's (IAF's) skills and expertise for the issue as '**adequate**' or '**needs to improve**'.
- (iii) Please indicate whether your organisation uses an **external assessor** on the issue. *Leave unchecked if 'No'.*

| | (i) Current IAF competency level | | | | (ii) Adequacy of skills/expertise | | (iii) External assessor used | |
|--|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------------------|-----------------------|------------------------------|--------------------------|
| | Extremely poor | Below average | Average | Above average | Excellent | Adequate | Needs to improve | Yes |
| Occupational health and safety (OH&S) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Employee retention and turnover | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Training and education | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Supply chain issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Human rights issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Community impacts and relations | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Donations and sponsorships | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Product responsibility | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Customer privacy | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Other social issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |

14. For the following governance issues,

- (i) How would you rate your internal audit function's (IAF) **current competency**, in terms of its knowledge and ability to perform assurance and/or consulting engagements on the issue?
- (ii) Please indicate whether you consider your internal audit function's (IAF's) skills and expertise for the issue as '**adequate**' or '**needs to improve**'.
- (iii) Please indicate whether your organisation uses an external assurer on the issue. *Leave unchecked if 'No'.*

| | (i) Current IAF competency level | | | | | (ii) Adequacy of skills/expertise | | (iii) External assurer used |
|--|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------|
| | Extremely poor | Below average | Average | Above average | Excellent | Adequate | Needs to improve | Yes |
| Governance structure | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Organisational culture | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Business ethics | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Conflicts of interest | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Remuneration structures | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Diversity (employee/board diversity) and equal opportunity | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Stakeholder dialogue | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Risk management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Strategic risks | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Corruption and bribery | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Anti-money laundering | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Fraud | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Whistle-blower schemes | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Other governance issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |

15a. Who is primarily responsible in your organisation for oversight in relation to **environmental** issues? *Please select only one response.*

- ☐ Audit committee
- ☐ Audit committee chairperson
- ☐ CEO
- ☐ CFO
- ☐ Chief Risk Officer (CRO)
- ☐ Senior management
- ☐ Sustainability committee
- ☐ Sustainability committee chairperson
- ☐ Risk Committee
- ☐ Risk Committee chairperson
- ☐ Other, please specify: _____

15b. Who is primarily responsible in your organisation for oversight in relation to **social** issues? *Please select only one response.*

- ☐ Audit committee
- ☐ Audit committee chairperson
- ☐ CEO
- ☐ CFO
- ☐ Chief Risk Officer (CRO)
- ☐ Senior management
- ☐ Sustainability committee
- ☐ Sustainability committee chairperson
- ☐ Risk Committee
- ☐ Risk Committee chairperson
- ☐ Other, please specify: _____

15c. Who is primarily responsible in your organisation for oversight in relation to **governance** issues? *Please select only one response.*

- ☐ Audit committee
- ☐ Audit committee chairperson
- ☐ CEO
- ☐ CFO
- ☐ Chief Risk Officer (CRO)
- ☐ Senior management
- ☐ Sustainability committee
- ☐ Sustainability committee chairperson
- ☐ Risk Committee
- ☐ Risk Committee chairperson
- ☐ Other, please specify: _____

16. How frequently does the internal audit function **report** to each of the following internal stakeholders in relation to **ESG engagements**?

| | Frequency | | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|
| | Frequent | Infrequent | Never |
| Audit committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Audit committee chairperson | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| CEO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| CFO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Chief Risk Officer (CRO) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Sustainability committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Sustainability committee chairperson | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Senior management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Risk Committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Risk Committee chairperson | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Other, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

17. Please specify your perception of the level of senior management (CEO and/or CFO) support for your internal audit function's involvement in ESG

(i) Assurance activities, and

(ii) Consulting activities

| | None | Minimal | Moderate | High | Very High |
|-----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| (i) Assurance activities | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (ii) Consulting activities | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

18. Please specify your perception of the level of audit committee support for your internal audit function's involvement in ESG

(i) Assurance activities, and

(ii) Consulting activities

| | None | Minimal | Moderate | High | Very High |
|-----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| (i) Assurance activities | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (ii) Consulting activities | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

19. What standards/guidance does your internal audit function use for ESG assurance and consulting engagements? *Please select all that apply.*

- ☐ Institute of Internal Auditor's (IIA's) International Professional Practices Framework (IPPF): International Standards for the Professional Practice of Internal Auditing
- ☐ IIA's IPPF Practice Guide: Evaluating Corporate Social Responsibility/Sustainable Development
- ☐ International Standard on Assurance Engagements (ISAE) / Australian Standard on Assurance Engagements (ASAE) 3000
- ☐ AccountAbility AA1000 Standards
- ☐ Social Accountability International's SA8000
- ☐ Adherence to Global Reporting Initiative (GRI) guidelines
- ☐ ISO14000 Environmental Management
- ☐ Open Compliance and Ethics Group (OCEG) standards
- ☐ Other/s, please specify: _____

20. Does your internal audit function provide assurance opinions on ESG assurance engagements?

- ☐ Yes
- ☐ No

21. Please provide an indication of the **proportion (%)** of the **annual internal audit work plan** dedicated to **assurance and/or consulting** engagements on **ESG issues** (covered in the previous questions) and other areas. *The total allocation should equal 100%.*

| | |
|---|------|
| Environmental issues (assurance) | % |
| Environmental issues (consulting) | % |
| Social issues (assurance) | % |
| Social issues (consulting) | % |
| Governance issues (assurance) | % |
| Governance issues (consulting) | % |
| Financial issues | % |
| Other operational and compliance issues | % |
| Other/s, please specify: | % |
| | |
| TOTAL | 100% |

22. Please provide an indication of your organisation's total number of employees (full-time equivalent)?

If your organisation is a government/public sector organisation, please skip Question 23 and proceed to Question 24. If your organisation is NOT a government/public sector organisation, please respond to Question 23 and skip Question 24.

23. Please provide an indication of your organisation's total assets in Australian dollars?

Please proceed to Question 25.

24. Please provide an indication of your organisation's total budgeted expenditure for the current financial year in Australian dollars?

25. How long has your organisation's internal audit function been in place?

| |
|--|
| |
|--|

26. How many full-time equivalent (FTE) personnel are there in your internal audit function?

| | |
|------------|--|
| In-house | |
| Outsourced | |

27. What is the estimated budget for your internal audit function in the current financial year in Australian dollars?

| |
|--|
| |
|--|

For questions 28 to 30, please indicate your level of agreement with the statements.

28. "Internal audit functionally reports to...

| | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| The audit committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CFO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CEO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

29. "Authorisation to terminate the CAE is given by...

| | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| The audit committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CFO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CEO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

30. "The internal audit activity's annual budget is determined by...

| | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| The audit committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CFO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CEO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

31. Do you meet or talk with the audit committee/chairman in addition to regularly scheduled meetings? *Please select all that apply.*

- ☐ Yes - private session prior to formal audit committee meetings
- ☐ Yes - as required
- ☐ No

32. Do you have unrestricted access to the audit committee/chairperson as required at your discretion?

- ☐ Yes
- ☐ No

33. Please specify the **total number of directors on your organisation's **audit committee** (including both executive and non-executive).**

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5
- ☐ Other, please specify: _____

34. Please specify the **number of independent external members on your **audit committee**.**

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5
- ☐ Other, please specify: _____

35. Please specify the **number of audit committee members who have**

| | |
|---|--|
| Financial or accounting expertise | |
| Industry experience (same industry in which organisation operates) | |
| Law | |
| IT expertise | |
| Environmental/Engineering expertise | |
| Human rights / Labour practices expertise | |

36. How many years have you been the CAE (or equivalent) at your current organisation?

37. How many years experience in total do you have as an internal auditor?

38. Your qualifications

- ☐ Internal auditing
- ☐ External auditing
- ☐ Accounting
- ☐ Finance
- ☐ General business/management
- ☐ Economics
- ☐ Law
- ☐ Computer science or information systems
- ☐ Mathematics/statistics
- ☐ Engineering
- ☐ Other science or technical field (e.g. physics, chemistry, geology, biology)
- ☐ Arts or humanities (e.g. languages, literature, history, psychology)
- ☐ Other/s, please specify: _____

39. Your professional qualifications/certifications/affiliations

- ☐ Certified Internal Auditor (CIA)
- ☐ Certified Member of IIA-Australia (CMIIA)
- ☐ Public accounting (Certified Practising Accountant (CPA), Chartered Accountant (CA))
- ☐ Certified Government Audit Professional (CGAP)
- ☐ Certification in Control Self-Assessment (CCSA)
- ☐ Certified Financial Services Auditor (CFSA)
- ☐ Certified Financial Analyst (CFA)
- ☐ Member, Australian Institute of Company Directors (AICD)
- ☐ Other/s, please specify: _____

40. Have you, or any of your internal audit staff, received any ESG related training in the last 12 months?

- ☐ Yes *Please proceed to Question 41*
- ☐ No *Please proceed to Question 42*

41. Please provide details of ESG training received

42. Do you, or any of your internal audit staff, plan to attend any ESG related training in the next 12 months?

- ☐ Yes *Please proceed to Question 43*
- ☐ No *Please proceed to end of survey*

43 Please provide details of planned ESG training

Thank you, this marks the end of the survey questions. Please proceed to indicate your preference for receiving the results of this research.

Would you be willing to be contacted about participating in a follow-up interview to provide greater depth to this study?

- ☐ Yes *Please provide email below*
☐ No

Email:

Would you like to receive the results of this study?

- ☐ Yes, summary report (Benchmarking results) *Please provide email below*
☐ Yes, any journal article/s resulting from the present study *Please provide email below*
☐ No, thank you.

Email address to send report/s to:

Please note any comments/suggestions you have for the researchers.

Survey instrument: Service provider version

What is the number of organisations to which you (as an individual) provide internal audit services?

As an external service provider or consultant, please provide answers to this survey in relation to your *single largest* client organisation.

1. What type of organisation is your client?

- ☐ Publicly-traded (listed) company
- ☐ Privately held (non-listed) company
- ☐ Government - Federal
- ☐ Government - State
- ☐ Government - Local
- ☐ Not-for-profit/non-government organisation
- ☐ Other, please specify: _____

2. In which state or territory is your client organisation headquartered in Australia?

- ☐ NSW
- ☐ ACT
- ☐ VIC
- ☐ TAS
- ☐ SA
- ☐ WA
- ☐ NT
- ☐ QLD

3. In which industry does your client organisation primarily operate in (ANZSIC divisions used)?

- ☐ Accommodation and Food Services
- ☐ Administrative and Support Services
- ☐ Agriculture, Forestry, and Fishing
- ☐ Arts and Recreation Services
- ☐ Construction
- ☐ Education and Training
- ☐ Electricity, Gas, Water and Waste Services
- ☐ Financial and Insurance Services
- ☐ Health Care and Social Assistance
- ☐ Information Media and Telecommunications
- ☐ Manufacturing
- ☐ Mining
- ☐ Professional, Scientific and Technical Services
- ☐ Public Administration and Safety
- ☐ Rental, Hiring and Real Estate Services
- ☐ Retail Trade
- ☐ Transport, Postal and Warehousing
- ☐ Wholesale Trade
- ☐ Other, please specify: _____

4. Is your client organisation externally audited by a Big-4 audit firm?

- ☐ Yes
- ☐ No

5. Is your client organisation registered to report greenhouse gas emissions, energy consumption and production data under the National Greenhouse and Energy Reporting (NGER) Act 2007?

- ☐ Yes
- ☐ No
- ☐ Not sure

6. For the following **environmental issues**,

(i) Is your client's internal audit function (IAF) involved in providing **assurance and/or consulting** on the issue? *Please tick either, both, or neither as applicable.*

(ii) Is information related to the issue **externally reported** by your client organisation?

| | (i) IAF providers of assurance and/or consulting | | (ii) Is issue externally reported | |
|---|--|--------------------------|-----------------------------------|-----------------------|
| | Assurance | Consulting | Yes | No |
| Energy usage | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Materials usage | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Greenhouse gas emissions | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Hazardous waste disposal/management | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Water management | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Impacts on biodiversity | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Other environmental issue/s, please specify: _____ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |

7. From your client organisation's perspective, for the following **environmental issues,**

- (iv) How would you rate the **current importance** of the issue for the internal audit function (IAF)?
- (v) How has emphasis on the issue changed in the **last five years** (increasing, constant, decreasing)?
- (vi) What is your expectation of emphasis on the issue in the **next five years** (increasing, constant, decreasing)?

| | (i) Current importance of issue to IAF | | | | (ii) Change of emphasis over last 5 years | | | (iii) Your expectations of emphasis over next 5 years | | | |
|--|--|-----------------------|-----------------------|-----------------------|---|-----------------------|-----------------------|---|-----------------------|-----------------------|-----------------------|
| | Not important at all | Slightly important | Moderately important | Important | Very important | Increasing | Constant | Decreasing | Increasing | Constant | Decreasing |
| Energy usage | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Materials usage | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Greenhouse gas emissions | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Hazardous waste disposal/management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Water management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Impacts on biodiversity | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Other environmental issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

8. For the following **social issues**,

- (i) Is your client's internal audit function (IAF) involved in **providing assurance and/or consulting** on the issue? *Please tick either, both, or neither as applicable.*
- (ii) Is information related to the issue **externally reported** by your client organisation?

| | (i) IAF providers of assurance and/or consulting | | (ii) Is issue externally reported | |
|--|--|--------------------------|-----------------------------------|-----------------------|
| | Assurance | Consulting | Yes | No |
| Occupational health and safety (OH&S) issues | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Employee retention and turnover | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Training and education | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Supply chain issues | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Human rights issues | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Community impacts and relations | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Donations and sponsorships | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Product responsibility | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Customer privacy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Other social issue/s, please specify: _____ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |

9. From your client organisation's perspective, for the following **social issues**,

- (i) How would you rate the **current importance** of the issue for the internal audit function (IAF)?
- (ii) How has **emphasis** on the issue changed in the **last five years** (increasing, constant, decreasing)
- (iii) What is your expectation of **emphasis** on the issue in the **next five years** (increasing, constant, decreasing)?

| | (i) Current importance of issue to IAF | | | | (ii) Change of emphasis over last 5 years | | | (iii) Your expectations of emphasis over next 5 years | | | |
|--|--|-----------------------|-----------------------|-----------------------|---|-----------------------|-----------------------|---|-----------------------|-----------------------|-----------------------|
| | Not important at all | Slightly important | Moderately important | Important | Very important | Increasing | Constant | Decreasing | Increasing | Constant | Decreasing |
| Occupational health and safety (OH&S) issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Employee retention and turnover | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Training and education | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Supply chain issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Human rights issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Community impacts and relations | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Donations and sponsorships | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Product responsibility | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Customer privacy | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Other social issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

10. For the following governance issues,

- (i) Is your client's internal audit function (IAF) involved in providing **assurance and/or consulting** on the issue? *Please tick either, both, or neither as applicable.*
- (ii) Is information related to the issue **externally reported** by your client organisation?

| | (i) IAF providers of assurance/consulting | | (ii) Is issue externally reported? | |
|--|---|--------------------------|------------------------------------|-----------------------|
| | Assurance | Consulting | Yes | No |
| Governance structure | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Organisational culture | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Business ethics | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Conflicts of interest | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Remuneration structures | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Diversity (employee/board diversity) and equal opportunity | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Stakeholder dialogue | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Risk management | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Strategic risks | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Corruption and bribery | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Anti-money laundering | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Fraud | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Whistle-blower schemes | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |
| Other governance issue/s, please specify: _____ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="radio"/> | <input type="radio"/> |

11. From your client organisation's perspective, for the following **governance issues**,

- (i) How would you rate the **current importance** of the issue for the internal audit function (IAF)?
- (ii) How has **emphasis** on the issue changed in the **last five years** (increasing, constant, decreasing)
- (iii) What is your expectation of **emphasis** on the issue in the **next five years** (increasing, constant, decreasing)?

| | (i) Current importance of issue to IAF | | | | (ii) Change of emphasis over last 5 years | | | (iii) Your expectations of emphasis over next 5 years | | | |
|--|--|-----------------------|-----------------------|-----------------------|---|-----------------------|-----------------------|---|-----------------------|-----------------------|-----------------------|
| | Not important at all | Slightly important | Moderately important | Important | Very important | Increasing | Constant | Decreasing | Increasing | Constant | Decreasing |
| Governance structure | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Organisational culture | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Business ethics | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Conflicts of interest | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Remuneration structures | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Diversity (employee/board diversity) and equal opportunity | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Stakeholder dialogue | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Risk management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Strategic risks | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Corruption and bribery | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Anti-money laundering | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Fraud | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Whistle-blower schemes | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Other governance issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

12. For the following environmental issues,

- (i) How would you rate your client's internal audit function's (IAF) **current competency**, in terms of its knowledge and ability to perform assurance and/or consulting engagements on the issue
- (ii) Please indicate whether you consider your client's internal audit function's (IAF's) skills and expertise for the issue as '**adequate**' or '**needs to improve**'
- (iii) Please indicate whether your client organisation uses an **external assessor** on the issue. *Leave unchecked if 'No'.*

| | (i) Current IAF competency level | | | | (ii) Adequacy of IAF skills/expertise | | (iii) External assessor used |
|---|----------------------------------|-----------------------|-----------------------|-----------------------|---------------------------------------|-----------------------|------------------------------|
| | Extremely poor | Below average | Average | Above average | Adequate | Needs to improve | |
| Energy usage | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Materials usage | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Greenhouse gas emissions | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Hazardous waste disposal/management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Water management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Impacts on biodiversity | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Other environmental issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |

13. For the following social issues,

- (i) How would you rate your client's internal audit function's (IAF) **current competency**, in terms of its knowledge and ability to perform assurance and/or consulting engagements on the issue
- (ii) Please indicate whether you consider your client's internal audit function's (IAF's) skills and expertise for the issue as 'adequate' or 'needs to improve'
- (iii) Please indicate whether your client organisation uses an **external assessor** on the issue. *Leave unchecked if 'No'.*

| | (i) Current IAF competency level | | | | (ii) Adequacy of skills/expertise | | (iii) External assessor used | |
|---|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------------------|-----------------------|------------------------------|--------------------------|
| | Extremely poor | Below average | Average | Above average | Excellent | Adequate | Needs to improve | Yes |
| Occupational health and safety (OH&S) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Employee retention and turnover | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Training and education | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Supply chain issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Human rights issues | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Community impacts and relations | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Donations and sponsorships | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Product responsibility | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Customer privacy | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Other social issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |

14. For the following governance issues,

- (i) How would you rate your client's internal audit function's (IAF) **current competency**, in terms of its knowledge and ability to perform assurance and/or consulting engagements on the issue
- (ii) Please indicate whether you consider your client's internal audit function's (IAF's) skills and expertise for the issue as '**adequate**' or '**needs to improve**'
- (iii) Please indicate whether your client organisation uses an **external assessor** on the issue. *Leave unchecked if 'No'.*

| | (i) Current IAF competency level | | | | (ii) Adequacy of skills/expertise | | (iii) External assessor used |
|--|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------------------|-----------------------|------------------------------|
| | Extremely poor | Below average | Average | Above average | Adequate | Needs to improve | |
| Governance structure | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Organisational culture | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Business ethics | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Conflicts of interest | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Remuneration structures | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Diversity (employee/board diversity) and equal opportunity | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Stakeholder dialogue | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Risk management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Strategic risks | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Corruption and bribery | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Anti-money laundering | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Fraud | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Whistle-blower schemes | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |
| Other governance issue/s, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="checkbox"/> |

15a. Who is primarily responsible in your client organisation for oversight in relation to **environmental** issues? *Please select only one response.*

- ☐ Audit committee
- ☐ Audit committee chairperson
- ☐ CEO
- ☐ CFO
- ☐ Chief Risk Officer (CRO)
- ☐ Senior management
- ☐ Sustainability committee
- ☐ Sustainability committee chairperson
- ☐ Risk Committee
- ☐ Risk Committee chairperson
- ☐ Other, please specify: _____

15b. Who is primarily responsible in your client organisation for oversight in relation to **social** issues? *Please select only one response.*

- ☐ Audit committee
- ☐ Audit committee chairperson
- ☐ CEO
- ☐ CFO
- ☐ Chief Risk Officer (CRO)
- ☐ Senior management
- ☐ Sustainability committee
- ☐ Sustainability committee chairperson
- ☐ Risk Committee
- ☐ Risk Committee chairperson
- ☐ Other, please specify: _____

15c. Who is primarily responsible in your client organisation for oversight in relation to **governance** issues? *Please select only one response.*

- ☐ Audit committee
- ☐ Audit committee chairperson
- ☐ CEO
- ☐ CFO
- ☐ Chief Risk Officer (CRO)
- ☐ Senior management
- ☐ Sustainability committee
- ☐ Sustainability committee chairperson
- ☐ Risk Committee
- ☐ Risk Committee chairperson
- ☐ Other, please specify: _____

16. How frequently does your client's internal audit function **report** to each of the following internal stakeholders in relation to **ESG engagements**?

| | Frequency | | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|
| | Frequent | Infrequent | Never |
| Audit committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Audit committee chairperson | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| CEO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| CFO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Chief Risk Officer (CRO) | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Sustainability committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Sustainability committee chairperson | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Senior management | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Risk Committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Risk Committee chairperson | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Other, please specify: _____ | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

17. Please specify your perception of the level of **senior management (CEO and/or CFO) support for your client's internal audit function's involvement in **ESG****

(i) Assurance activities, and

(ii) Consulting activities

| | None | Minimal | Moderate | High | Very High |
|-----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| (i) Assurance activities | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (ii) Consulting activities | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

18. Please specify your perception of the level of **audit committee support for your client's internal audit function's involvement in **ESG****

(i) Assurance activities, and

(ii) Consulting activities

| | None | Minimal | Moderate | High | Very High |
|-----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| (i) Assurance activities | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| (ii) Consulting activities | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

19. What standards/guidance does your client's internal audit function use for ESG assurance and consulting engagements? *Please select all that apply.*

- ☐ Institute of Internal Auditor's (IIA's) International Professional Practices Framework (IPPF): International Standards for the Professional Practice of Internal Auditing
- ☐ IIA's IPPF Practice Guide: Evaluating Corporate Social Responsibility/Sustainable Development
- ☐ International Standard on Assurance Engagements (ISAE) / Australian Standard on Assurance Engagements (ASAE) 3000
- ☐ AccountAbility AA1000 Standards
- ☐ Social Accountability International's SA8000
- ☐ Adherence to Global Reporting Initiative (GRI) guidelines
- ☐ ISO14000 Environmental Management
- ☐ Open Compliance and Ethics Group (OCEG) standards
- ☐ Other/s, please specify: _____

20. Does your client's internal audit function provide assurance opinions on ESG assurance engagements?

- ☐ Yes
- ☐ No

21. Please provide an indication of the proportion (%) of your client's annual internal audit work plan dedicated to assurance and/or consulting engagements on ESG issues (covered in the previous questions) and other areas. *The total allocation should equal 100%.*

| | |
|---|-------------|
| Environmental issues (assurance) | % |
| Environmental issues (consulting) | % |
| Social issues (assurance) | % |
| Social issues (consulting) | % |
| Governance issues (assurance) | % |
| Governance issues (consulting) | % |
| Financial issues | % |
| Other operational and compliance issues | % |
| Other/s, please specify: | % |
| <hr/> | |
| TOTAL | 100% |

22. Please provide an indication of your client organisation's total number of employees (full-time equivalent)?

If your client organisation is a government/public sector organisation, please skip Question 23 and proceed to Question 24. If your client's organisation is NOT a government/public sector organisation, please respond to Question 23 and skip Question 24.

23. Please provide an indication of your client organisation's total assets in Australian dollars?

Please proceed to Question 25.

24. Please provide an indication of your client organisation's total budgeted expenditure for the current financial year in Australian dollars?

25. How long has your client organisation's internal audit function been in place?

| |
|--|
| |
|--|

26. How many full-time equivalent (FTE) personnel are there in your client's internal audit function?

| | |
|------------|--|
| In-house | |
| Outsourced | |

27. What is the estimated budget for your client's internal audit function in the current financial year in Australian dollars?

| |
|--|
| |
|--|

For questions 28 to 30, please indicate your level of agreement with the statements for your client's internal audit function.

28. "Internal audit functionally reports to...

| | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| The audit committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CFO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CEO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

29. "Authorisation to terminate the CAE is given by...

| | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| The audit committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CFO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CEO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

30. "The internal audit activity's annual budget is determined by...

| | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| The audit committee | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CFO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| The CEO | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

31. Do you meet or talk with your client organisation's audit committee/chairman in addition to regularly scheduled meetings? *Please select all that apply.*

- ☐ Yes - private session prior to formal audit committee meetings
- ☐ Yes - as required
- ☐ No

32. Do you have unrestricted access to your client organisation's audit committee/chairperson as required at your discretion?

- ☐ Yes
- ☐ No

33. Please specify the **total number** of directors on your client organisation's **audit committee** (including both executive and non-executive).

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5
- ☐ Other, please specify: _____

34. Please specify the **number of independent** external members on your client organisation's **audit committee**.

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ 5
- ☐ Other, please specify: _____

35. Please specify the **number of audit committee members** in your client organisation who have

| | |
|--|--|
| Financial or accounting expertise | |
| Industry experience (same industry in which organisation operates) | |
| Law | |
| IT expertise | |
| Environmental/Engineering expertise | |
| Human rights / Labour practices expertise | |

36. How many years have you been Partner (or equivalent) at your current organisation?

37. How many years experience in total do you have as an internal auditor?

38. Your qualifications

- ☐ Internal auditing
- ☐ External auditing
- ☐ Accounting
- ☐ Finance
- ☐ General business/management
- ☐ Economics
- ☐ Law
- ☐ Computer science or information systems
- ☐ Mathematics/statistics
- ☐ Engineering
- ☐ Other science or technical field (e.g. physics, chemistry, geology, biology)
- ☐ Arts or humanities (e.g. languages, literature, history, psychology)
- ☐ Other/s, please specify: _____

39. Your professional qualifications/certifications/affiliations

- ☐ Certified Internal Auditor (CIA)
- ☐ Certified Member of IIA-Australia (CMIIA)
- ☐ Public accounting (Certified Practising Accountant (CPA), Chartered Accountant (CA))
- ☐ Certified Government Audit Professional (CGAP)
- ☐ Certification in Control Self-Assessment (CCSA)
- ☐ Certified Financial Services Auditor (CFSA)
- ☐ Certified Financial Analyst (CFA)
- ☐ Member, Australian Institute of Company Directors (AICD)
- ☐ Other/s, please specify: _____

40. Have you, or any of your internal audit staff, received any ESG related training in the last 12 months?

- ☐ Yes *Please proceed to Question 41*
☐ No *Please proceed to Question 42*

41. Please provide details of ESG training received

42. Do you, or any of your internal audit staff, plan to attend any ESG related training in the next 12 months?

- ☐ Yes *Please proceed to Question 43*
☐ No *Please proceed to end of survey*

43. Please provide details of planned ESG training

Thank you, this marks the end of the survey questions. Please proceed to indicate your preference for receiving the results of this research.

Would you be willing to be contacted about participating in a follow-up interview to provide greater depth to this study?

- ☐ Yes *Please provide email below*
- ☐ No

Email:

Would you like to receive the results of this study?

- ☐ Yes, summary report (Benchmarking results) *Please provide email below*
- ☐ Yes, any journal article/s resulting from the present study *Please provide email below*
- ☐ No, thank you.

Email address to send report/s to:

Please note any comments/suggestions you have for the researchers.

Appendix D, E & F of this thesis have been removed as they may contain sensitive/confidential content

