

ORIGINAL ARTICLE

Factors that enhance the quality of the relationships between internal auditors and auditees: Evidence from Italian companies

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This study examines the relationships between internal auditors and auditees in an attempt to identify the factors that influence the abilities of internal auditors (IAs) to build high-quality relationships with auditees. The analysis is based on the responses of 78 Italian Chief Audit Executives who took part in a survey in 2014. The results indicate two factors that are positively and significantly associated with high-quality IA–auditee relationships: (1) the integration of senior management's inputs in the setting up of audit plans; and (2) the use of the internal auditing function (IAF) as a management training ground. The results also show a positive but marginally significant relationship between the regular revision of audit methodologies and high-quality IA–auditee relationships. Surprisingly, the results indicate a negative and significant association between the diversification of an IAF's activities and an IAF's ability to create positive collaboration with auditees.

KEYWORDS

auditees, internal audit function, internal auditors, quality, relationship building

1 | INTRODUCTION

To maintain and develop its organizational relevance, the internal auditing function (IAF) must add value for its stakeholders. The most common definition of stakeholders (Freeman, 1984, p. 46) identify them as “any group or individual who can affect or is affected by the achievement of the organization's objectives.” Applying this definition to the internal audit context, nowadays the IAF deals with a wide range of groups (e.g. the board, audit committee, risk committee) and individuals (CEO, senior and operating managers, risk manager, compliance officer, etc.) with a direct or an indirect interest in the IAF's activities and the results these activities produce.

The number of the IAF stakeholders varies between organizations, industries, and countries. Practitioners and academics maintain that effective stakeholder relationships are crucial to the IAF's ability to achieve its goals and objectives. For instance, IIA Australia (Institute of Internal Auditors Australia, 2016) argues that fostering and strengthening stakeholder relationships helps to build confidence in internal auditor (IA) work and develops in stakeholders an understanding of the roles internal audit can and should play in an organization.

To date, academics have focused mainly on the relationships between the IAF and three of its stakeholders: senior management (SM), the audit committee (AC), and external auditors (EAs). Studies have long considered SM and AC the IAF's “two masters” by

maintaining that satisfying their expectations increases the IAF's organizational relevance (Abbott, Parker, & Peters, 2010; Hoos, Messier, Smith, & Tandy, 2014; Roussy, 2015; Soh & Martinov-Bennie, 2011).

The IA literature considers auditees to also be an IAF stakeholder because, in line with Freeman's seminal definition, auditees are affected by the IAF's activities and may also influence the effectiveness and efficiency of these activities. Studies hold that auditees' behaviors may affect the IAF's effectiveness, defined as “the ability to help the organization to achieve its objectives by improving the quality of internal control (IC), risk management (RM) and corporate governance (CG) systems” (Lenz & Hahn, 2015, p. 7). For instance, an auditee who is reluctant to work with the auditors, by, for instance, retaining relevant information or refusing to cooperate, could reduce the IAs' ability to detect IC and RM weaknesses or to investigate the root causes of problems in order to propose solutions to them (Dittenhofer, 2001). A reluctant auditee also increases the likelihood that IAs do not detect a problem during an audit process, which may damage the IAs' reputation among the primary stakeholders if such a problem surfaces after the audit.

Since IAs on their own are unable to enhance an organization's IC, RM, and CG systems, they should gain support from auditees without comprising their independence and objectivity. In this perspective, they must pay attention to auditees' legitimacy interests and should carefully manage relationships with them. Relationships between

auditees and IAs are very sensitive and could lead to conflicts. This is particularly true when the auditees see IAs as the police and are reluctant to communicate clearly and transparently with them (Sakka & Manita, 2011). But, since this relationship is bidirectional, ineffective interactions can also be the result of poor attitudes, skills, and behaviors on the part of IAs. Chambers and McDonald (2013) considers relationship-building a high-value non-technical capability that IAs should possess in order to succeed in an organization, as this helps them to foster mutual trust and credibility and to reduce friction and conflict.

Although auditees may influence the IAF's effectiveness, IA-auditee relationships have largely gone under-examined. To date, very few authors have referred to this relationship (see Section 2), and none of these studies provide empirical evidence of this relationship's characteristics and of the factors that can enhance the IA's ability to build high-quality relationships with auditees.

We analyze IA-auditee relationships in the context of Italian companies with the aim of exploring this relationship's characteristics and to identify the factors that may influence the building of high-quality relationships between auditors and auditees. Based on the responses of 78 Italian Chief Audit Executives (CAEs) who participated in a survey in 2014, this study: (1) analyzes the quality of IA-auditee relationships to understand the extent to which an IAF has built a transparent, collaborative, constructive, and partnering relationship with its auditees; and (2) tests the correlation between an IAF's ability to build high-quality relationships with auditees and potential factors that influence this relationship drawn from the IA literature. We analyze IA-auditee relationships from the supply-side perspective of those providing the IA services. In particular, we consider CAEs' perceptions of their IAF's ability to build and maintain high-quality relationships with auditees.

Our study contributes to the literature in two ways. First, it adds to research into the factors that contribute to IAF effectiveness. Lenz and Hahn (2015, p. 12) call for more academic studies into the key skills and competencies an IAF should possess in order to "obtain acceptance and appreciation of IA findings so that the auditee eventually resolves surfacing issues." We respond to this call by highlighting the factors that enhance the IAF's relationship with auditees.

Second, it extends knowledge about IA-auditee relationships, and proposes a model to assess the factors that positively impact these (Frigo, 2002; Ziegenfuss, 2000). Our paper differs from that of Arena and Azzone (2009), which examines IA-auditee relationship quality, by looking at the percentage of IA recommendations that auditees have implemented. In our view, this measure is relevant to examine this relationship's quality, but captures only one fairly short-term aspect of the effectiveness puzzle. The IA-auditee relationship also has other characteristics; it is characterized by an inherent information asymmetry, which exposes IAs to the risk of opportunistic behaviors by auditees (Choi, Kim, Kim, & Zang, 2010). Further, we cannot exclude the possibility of the IAF and auditees having potential conflicts of interest. Thus, there is a risk that an auditee reduces the cooperation level, and there is a possibility of disputes between these two actors, which can lower an IAF's effectiveness. To examine the complex interactions between an IAF

and auditees, we decided to complement Arena and Azzone's study (2009) with a structured relationship-building model. In our view, this will enable us to gain a deeper understanding of IA-auditee relationship quality.

This study will also benefit practitioners by helping them to identify the factors that help to build relationships with auditees. Our approach could also be used to improve the development of an IAF performance measurement system. Several studies (Chen & Lin, 2011; Sarens, Allegrini, D'Onza, & Melville, 2011) have found that less mature IAFs typically have no performance measurement systems; CAEs can use our methodology to build one or improve an existing one.

The remainder of this paper is organized as follows: In the following section, we review the literature, present the model used to analyze the characteristics of IA-auditee relationships, and develop our hypotheses. In Section 3, we discuss the research methodology; in Section 4, we present the results; and in Section 5, we discuss the findings and derive conclusions.

2 | LITERATURE REVIEW AND RESEARCH HYPOTHESES

2.1 | IA-auditee relationships

As noted, very few IA studies have examined IA-auditee relationships. For instance, Anderson (2003) highlights key differences between the IA value proposition for auditees (which he identifies with the operating managers) and for the AC. He argues that the IAF adds value for auditees when it helps them to identify potential cost savings and to increase the efficiency of its processes, as well as when the IAF discovers opportunities to improve its operations' effectiveness. Wealleans (2005) confirms this view by saying that auditees consider the IAF effective when its recommendations are not trivial, but help them to improve working practices. Another empirical study (Elliott, Dawson, & Edwards, 2007) highlights that auditees sometimes don't perceive an IAF as adding value owing to a low capacity to analyze the root causes of the identified problems and because the quality of the suggested improvement actions is low. Dittenhofer (2001, p. 446) maintains that an IAF is effective when it "(1) audits the achievement of the auditees' objectives and finds no problems, and no problems surface following the audit; or (2) audits and finds problems; and (3) recommends solutions to the problems; and (4) the solutions resolve the problems." Arena and Azzone (2009) concurs by highlighting that an IAF is effective when auditees implement IAs' recommendations. Other studies (Frigo, 2002; Ziegenfuss, 2000) point out that an IAF is effective when it responds to auditees' needs.

None of these studies have examined the characteristics of this relationship. To identify these characteristics, existing organizational public relations (OPR) studies have offered useful indications on the dimensions that should be considered when one analyzes the relationship between an organization (or a person) and its primary stakeholders. While these dimensions vary between studies (e.g. Bruning & Ledingham, 1999; Grunig, Grunig, & Ehling, 1992; Stafford

& Canary, 1991), according to Huang (2001), four universal dimensions define this relationship: trust, control mutuality, relational satisfaction, and relational commitment. Huang (2001) notes that these dimensions are appropriate to study both OPR relationships and interpersonal relationships. Thus, since IA–auditee interactions are interpersonal relationships, these dimensions can also be applied to analyze this relationship's characteristics.

According to Huang (2001, p. 66), *trust* is “one's confidence in and willingness to open oneself up to fair and aboveboard dealings with the other party,” and opens the door for frank communication. Since IA–auditee relationships are characterized by an inherent information asymmetry risk (Choi et al., 2010), such trust is crucial to favor transparency and open dialogue between parties. Transparent communication helps IAs to easily discover problems during an audit engagement and reduces audit process times and costs by also improving IAF efficiency. *Control mutuality*, as “the degree to which partners agree about which of them should decide relational goals and behavioral routines” (Huang, 2001, p. 66), does not apply in IA–auditee relationships because, in the assurance engagement, they have their own—self-determined—goals and objectives.

Relational satisfaction is “the extent to which one party feels favorably toward the other because positive expectations about the relationship exist” (Huang, 2001, p. 67). In IA–auditee relationships, both parties can actively collaborate and behave constructively, as they expect mutual rewards. Particularly, auditees can benefit from IAs' recommendations to improve their process efficiency and effectiveness, and IAs can easily achieve their audit engagement objectives when auditees collaborate.

Relational commitment can be defined as “the extent to which one party believes and feels that the relationship is worth spending energy to maintain and promote” (Huang, 2001, p. 67). Thus in a partnering relationship, the auditees consider IAs to be partners, as they believe that IAs have knowledge and capabilities to help the organization to achieve its goals and therefore believe their relationship with IAs warrants maximum effort.

Following the OPR literature, we assume that trust, relational satisfaction, and relational commitment influence the quality of the IA–auditee relationship. We identify two opposing situations. On one side, there is a situation in which auditees (1) do not fully trust IAs, (2) do not have positive expectations about the outputs the IAF can deliver (relational satisfaction; see above), and (3) they do not think this relationship is worth spending energy on to build or maintain, because it is their perception that they will not get useful contributions from IAs (relational commitment). This will push the relationship toward a minimum level of cooperation, in which auditees are passive toward IAs and will reduce their contributions to no more than is strictly necessary to accomplish the audit tasks.

In the opposite situation, auditees fully trust IAs, and there is high relational satisfaction and commitment. This will lead to a relationship in which auditees are fully transparent with IAs because they trust them, actively collaborate with them to analyze the discovered problems, find effective solutions, take the IA findings seriously, and invest effort in maintaining and promoting this relationship.

2.2 | The relationships with primary internal audit stakeholders

The IAF serves a wide group of stakeholders and provides them with assurance and consulting services in order to fulfill their various requests. Theoretically, the IAF should consider all the different stakeholders' expectations in order to satisfy them in their entirety (Güner, 2008). However, in practice, this is often not feasible. As the number of IA stakeholders has increased over time, the debate about which stakeholder is the most crucial has expanded. Studies have long debated about the IAF's “two masters” (the SM and the AC), indicating that the dominance of one over the other influences the IAF's goals, objectives, and activities. In short, when the SM prevails, the IAF will more likely focus on business process efficiency and effectiveness, whereas, when the AC prevails, the IAF focuses more on the assessment of the company's RM and IC systems (Abbott et al., 2010; Roussy, 2015; Soh & Martinov-Bennie, 2011). Other studies (Chambers & Odar, 2015; Paape, Scheffe, & Snoep, 2003) maintain that the IAF's primary stakeholder is the board, which expects the IAF to help it satisfy its assurance needs. Nonetheless, in organizational life, the CAE may not perceive the board or the AC as the key stakeholder but, rather, others such as the CEO or senior leaders in the organization (Anderson, 2003).

Confusion about who the key stakeholder is may negatively affect relationships between the IAF and its stakeholders. At a strategic level, when the IAF should respond to a wide range of stakeholder requests, it becomes more difficult for the CAE to prioritize and balance the stakeholders' expectations when deciding on the internal audit strategy. At a tactical level, it can impair the planning, conduct, and reporting of audit engagement results. This confusion negatively impacts an engagement's objectives, producing overly ambitious objectives with the intent to satisfy all key stakeholders or vague objectives when the IAF's roles and strategies are not clearly defined. This can also create uncertainty regarding the most relevant risks and controls to analyze during the audit engagement as well as on the most important findings to include in audit reports. It can also impact other aspects of the audit engagement, such as the setting of priorities in establishing audit programs, the resource allocation, and the seeking of audit evidence. These situations may negatively impact IA–auditee relationships, as the latter may perceive that the IAs' expectations are ambiguous, may perceive a lack of clear orientation in the audit process, and may reduce their cooperation with IAs to the minimum. If there is confusion about which stakeholder is the most important for the IAF, it is not clear to auditees what expectations they may have of the IA, and such ambiguity may harm relational satisfaction. Since we know from OPR studies that relational satisfaction contributes to relationship quality, we propose that the confusion about the main stakeholder has a negative association with the ability to build high quality IA–auditee relationships. Thus:

Hypothesis 1. There is a negative association between the confusion about which stakeholder is the most important for the IAF and the IAF's ability to build high-quality relationships with auditees.

2.3 | Audit planning

Audit engagements' objectives and scope are defined in the audit plan that the CAEs typically develop every year. The IIA Standards (Institute of Internal Auditors, 2009) state that CAEs must consult senior management and the board to obtain inputs for the audit plan. Studies have highlighted that a key attribute of the most successful IAFs is alignment between the IAF's goals and activities, the organization's objectives, and the primary IA stakeholders' expectations (Roth, 2000). Thus, the approaches used to develop IA plans at the macro level and the micro level should help the IAF to create, maintain, and reinforce these alignments (Hass, Abdolmohammadi, & Burnaby, 2006). Anderson and Svare (2011) argue that the analysis of SM's expectations is a fundamental step in effectively planning IA activities, as this makes it possible to focus the IA services on the processes and operations that senior managers perceive as most critical to enhance the firm's performance. Christopher, Leung, and Sarens (2009) support this argument by suggesting that input should be solicited from the CEO and the CFO, given their ability to identify high-risk areas in which audits are warranted. An analysis of the SM's expectations in the audit planning process (macro level) helps the IAF to become much more business-oriented and operations-oriented, and offers the CAE greater possibilities to recognize the risks that are critical to meet a firm's vstrategic objectives (Selim & McNamee, 1999). Further, an analysis of an SM's expectations also has positive results for the planning of every audit engagement (micro level), because it helps an IAF to focus its monitoring role on the risks that are most critical for the efficiency and effectiveness of the company's processes. Moreover, a better understanding of the business risks and priorities help IAs to create empathy with auditees (Chambers & McDonald, 2013) and help them to provide more valuable advice and recommendations (Castanheira, Rodrigues, & Craig, 2010). Thus, auditees can benefit from IAs' recommendations, which would improve the relational satisfaction. Since we know from OPR studies that relational satisfaction contributes to relationship quality, we propose that the integration of an SM's expectations is positively associated with the ability to build high quality IA-auditee relationships. Thus:

Hypothesis 2. There is a positive association between the integration of an SM's expectations during the audit planning process and an IAF's ability to build high-quality relationships with auditees.

2.4 | The number of internal audit activities performed

Considering the value-adding factors of the IAF, Roth (2000) argues that an excellent IAF offers an extensive array of services in order to meet various stakeholders' demands. An empirical study by Ernst & Young (2011) notes that the diversification of activities offers IAs an enterprise-wide view and helps them to become a *risk catalyst* in order to support senior and operating managers to identify the primary risks and to effectively manage them. More recently, an international empirical study (Selim, Allegrini, D'Onza, Koutoupis, & Melville, 2014) highlights that the CAEs interviewed in various countries indicate that when an IAF can manage a diversified audit plan, it can increase its

knowledge and can stay up-to-date about what is going on in the organization's business and concerning the primary and emerging risks. This knowledge helps to create partnering relationships with all IAF stakeholders (Chambers & McDonald, 2013), including auditees, as IAs can help auditees to focus more on those risks that the board and the SM consider to be the most critical and can provide suggestions and recommendations to ensure that the primary risks are effectively identified and managed. This knowledge would increase the relational satisfaction between IAs and auditees. Since OPR studies indicate that relational satisfaction contributes to the quality of a relation, we propose that the number of activities performed is positively associated with the ability to build high-quality IA-auditee relationships. Thus:

Hypothesis 3. There is a positive association between an IAF's number of activities and its ability to build high-quality relationships with auditees.

2.5 | Audit expertise

Prior studies have highlighted that when line managers believe that IAs have insufficient knowledge to provide useful recommendations, they do not consider their advice and suggestions, which reduces the effectiveness of the IAF's work (Griffiths, 1999; Van Peursem, 2004). The Internal Audit Competency Framework (IIARF, 2013) has identified three key area of expertise: (i) the international professional practices framework; (ii) governance, risk, and control; and (iii) business acumen. When IAs operate in conformance with the international standards, this increases auditees' perceptions that the auditors are being professional and working according to best practices. This increases trust and cooperation between parties. Moreover, when IAs demonstrate experience and knowledge in governance, risk, and control activities relating to the specific business context, this helps auditees to set positive expectations, since they can benefit from the IAs' recommendations. Further, professional literature (PricewaterhouseCoopers, 2016) has recently pointed out the importance of integrating these areas of expertise, highlighting in particular the relevance of business acumen for an IAF's ability to satisfy its stakeholders. Business acumen refers to a deep understanding of an organization's processes, systems, and risks. Concerning IA-auditee relationships, business expertise and knowledge of an auditee's processes increase an IAs' ability to identify process weaknesses and to recommend the right solutions to auditees. This will improve IAs' relationships with auditees, who become more inclined to actively collaborate with auditors, because they see that the IAs may provide them with useful suggestions to help them achieve their business goals. Taken together, these considerations highlight that audit expertise, as defined by the Internal Audit Competency Framework, would improve relational satisfaction, because auditees behave constructively toward auditors, as they expect useful suggestions. Because we know from OPR studies that relational satisfaction contributes to relationship quality, we propose that audit expertise is positively associated with the ability to build high-quality IA-auditee relationships. Thus:

Hypothesis 4. There is a positive association between an IAF's audit expertise and its ability to build high-quality relationships with the auditees.

2.6 | Internal auditing as a management training ground

The use of the IAF as a management training ground (MTG) is a fairly widespread practice in Anglo-Saxon countries (Abbott et al., 2010; Christopher et al., 2009) and is expanding in many European countries (Sarens & De Beelde, 2006). This practice consists of using different rotational program types in which IA positions are used as a training ground or a stepping stone for future managers to further their careers (Burton, Starliper, Summers, & Wood, 2015). Authors have widely debated the positive and negative consequences of using this practice. Regarding the negative effects, a primary concern is the impairment of IAs' objectivity, because this practice makes IAs dependent on managers who evaluate them for promotion (Hoos et al., 2014), which can weaken the effectiveness of an IAF's monitoring tasks (Messier, Reynolds, Simon, & Wood, 2011).

Regarding the positive consequences, the literature suggests that IAs' continuous rotation between different functional domains in a company to prepare them for future managerial positions helps to develop interpersonal skills and organizational expertise (Rose, Rose, & Norman, 2013). Christ, Masli, Sharp, and Wood (2015) emphasize increased business knowledge as a key benefit of this practice, because systematic rotation in different organizational departments offer IAs opportunities to gain specific knowledge about operations and procedures in a business's core processes. Thus, using the IAF as an MTG enables IAs to develop business acumen and their ability to find effective solutions, so as to increase the efficiency and effectiveness of an auditee's processes. This will improve IAs' relationships with auditees, who will likely become more collaborative if they see that IAs can provide them with valuable recommendations. In other words, using the IAF as an MTG would increase relational satisfaction, because auditees expect to benefit from the IAs' recommendations. Moreover, using the IAF as an MTG may also enlarge relational commitment between auditees and IA, because auditees know that they are building a future together and that these auditors may in the future become senior managers. As we know from OPR studies that relational satisfaction and commitment contribute to relationship quality, we propose that using the IAF as an MTG is positively associated with the ability to build high-quality IA-auditee relationships. Thus:

Hypothesis 5. There is a positive association between the use of the IAF as a management training ground and the IAF's ability to build high-quality relationships with auditees.

2.7 | Audit methodology

Audit methodology involves the approaches, procedures, tools, and techniques IAFs use to perform their activities. The use of appropriate audit methodologies helps an IAF to improve the quality of its services (Spira & Page, 2003). Other authors confirm this by reporting that the

use of the appropriate audit methodologies enables an increase in an IAF's efficiency and an improvement in work accuracy (Dittenhofer, 2001). Empirical investigations into IAs' value-adding factors have found a positive relationship between IA effectiveness and the adoption of audit techniques such as computer-assisted auditing techniques (Braun & Davis, 2003) as well as control and risk self-assessment techniques (Allegrini, D'Onza, Melville, Sarens, & Selim, 2011; Arena & Azzone, 2009).

An analysis of these studies shows that there is no "one best" methodology to ensure that the IAF adds value in all circumstances. Conversely, an IAF's effectiveness depends on its ability to revise audit methodologies in order to adapt them to an audit engagement's specific goals and characteristics. Audit methodology flexibility permits IAs to adapt these to the characteristics of an auditee's processes, increasing an IA's ability to find effective solutions to identified weaknesses. Thus, IAs may better provide suggestions that satisfy auditees' needs, helping auditees to enhance the profitability of their processes. This would increase relational satisfaction, because auditees consider IAs' ability to adapt to the context and to auditee needs, and set positive expectations about the benefits they can get from the IAs' recommendations. As OPR studies indicate that relational satisfaction contributes to relationship quality, we propose that a flexible audit methodology is positively associated with the ability to build high-quality IA-auditee relationships. Thus:

Hypothesis 6. There is a positive association between regularly revising audit methodologies and an IAF's ability to build high-quality relationships with auditees.

3 | METHODOLOGY

3.1 | Survey and respondents

The data collection was based on a survey among 78 Italian CAEs. To collect the data, we developed an online questionnaire with two sections. The first section includes questions about IAF characteristics that may be associated with an IAF's ability to add value for its stakeholders; the second contains questions that measure CAEs' perceptions concerning an IAF's relationship with its auditees.

To correctly develop the data collection tool, we first discussed the questions with three CAEs to understand how the respondents would interpret the questions. We then revised the questionnaire based on their comments.

In November 2014, IIA Italy sent out an invitation to complete the online questionnaire to 550 CAEs who are members of IIA Italy. We also sent out two reminders to give these CAEs the possibility to complete the questionnaire by the end of December 2014. We collected 123 questionnaires, representing an overall response rate of 22%. However, we excluded 45, because some questions had not been answered, leading to a de facto response rate of 14% (78 usable questionnaires). The respondents' distribution in terms of organization type is presented in Table 1, which reports the percentage of respondents per organization type. Table 1 shows that for each organization type, the respondents represent the sample of CAEs conducted, except for one group (listed firms), which was

TABLE 1 Number and percentage of respondents per organization type

	No. of respondents	Percentage of respondents	Total number of CAEs contacted	Percentage of CAEs contacted
Privately held non-listed	39	50.0	226	41.1
Publicly traded listed	27	34.6	264	48.0
Public sector governmental	7	9.0	32	5.8
Not-for-profit non-governmental	3	3.8	13	2.4
Other	2	2.6	15	2.7
Total	78	100	550	100

underrepresented, as the percentage of respondents (34.6%) was lower than the percentage of CAEs contacted (48.0%). Notably, the participating CAEs were all members of IIA Italy. As there are no official statistics of the number of organizations in Italy that have established an IAF, we could not compare our 78 respondents with Italy's entire IA community.

We checked for non-response bias by comparing the responses of those who had completed the questionnaire after the first mailing (28) to those (16) who did so after the second reminder. Concerning these two groups, Table 2 reports the means and the p -values for the 12 variables we used in our analysis. We found no significant differences between the two groups.

TABLE 2 Analysis for non-response bias

	Mean first group (early respondents)	Mean second group (late respondents)	Sig.
There is a minimum collaboration level with auditees and management during our audit assignments	4.00	3.47	0.684
Auditees are fully transparent towards the internal auditors	3.54	3.47	0.775
Auditees actively collaborate with the internal auditors	3.96	3.87	0.684
Auditees behave constructively when confronted with the IA function	3.92	4.00	0.723
Auditees consider IA findings and recommendations	4.04	3.87	0.400
Auditees consider internal auditors as their peers/partners	3.42	3.27	0.532
MAINSTK	2.18	2.50	0.340
INPUTSM	3.75	4.13	0.073
NUMACT	3.61	3.94	0.292
AUDEXP	2.54	2.73	0.462
IAMTG	3.18	3.53	0.313
REVMTH	2.61	2.73	0.698

IA: internal audit

3.2 | Variable description and model specification

3.2.1 | Dependent variable

To examine IA-auditee relationship quality, we used the six items reported in Table 3. For each item, we asked the CAEs to indicate their level of (dis)agreement using a five-point Likert scale (anchored between *strongly disagree* and *strongly agree*).

Cronbach's alpha was 0.726, indicating an acceptable internal consistency level among the six analyzed items. We used principal component analysis (PCA) to reduce the six items indicated in Table 3 to a smaller component set. The PCA results showed that five of the six statements can be classified under one underlying component (Table 4). The pattern matrix showed that, for five statements, the component loadings were above the critical value of 0.4 that is conventionally used as the threshold to identify the variables to be grouped under one component (Norman & Streiner, 2000).

Based on the PCA results, we grouped the five correlated items under one concept (component), *The auditees behave in transparent, collaborative, constructive, and partnering ways with the IAF*. We assume that IA-auditee relationships are of high quality when CAEs believe that all five conditions were met: auditees are fully transparent during an audit engagement, collaborate actively with IAs, behave constructively, take IAs' recommendations seriously, and consider IAs as their peers or partners. Thus, to measure IA-auditee relationship quality, we used *The auditees behave in transparent, collaborative, constructive, and partnering ways with the IAF*. Thus, we created the variable *QUALITYREL*, which is the dependent variable we used in our regression analysis. *QUALITYREL* took a value of 1 when, for all five correlated statements, the respondents indicated that they *agreed* or *strongly agreed* and 0 in all other cases.

3.2.2 | Independent variables

We describe the independent variables and their measurement in Table 5; these include six explanatory variables used to test the hypotheses and IAF size as a control variable.

3.2.3 | Model specification

Given that the dependent variable was binary, we used logistic regression to test the hypotheses. We developed a logistic regression model to analyze the association between the IAF's ability to build high-quality relationships with auditees and the IAF characteristics outlined in Section 2. We used the following model to formalize the associations between the dependent and independent variables for testing

TABLE 3 Quality of relationships between an IAF and auditees

There is a minimum collaboration level with auditees and management during our audit assignments
Auditees are fully transparent towards the internal auditors
Auditees actively collaborate with the internal auditors
Auditees behave constructively when confronted with the IA function
Auditees consider IA findings and recommendations
Auditees consider internal auditors as their peers/partners

IA: internal audit

purposes:

$$QUALITYREL = \beta_1 MAINSTK + \beta_2 INPUTSM + \beta_3 NUMACT + \beta_4 AUDEXP + \beta_5 IAMTG + \beta_6 REVMETH + \beta_7 IAFSIZE + \varepsilon$$

4 | RESULTS

4.1 | Descriptive results

Table 6 provides summary statistics for the dependent (Panel A) and independent variables (Panel B). Regarding the dependent variable (*QUALITYREL*), Table 6 shows that almost one-third of the respondents indicated that they *agreed* or *strongly agreed* that IAs in their organization have established transparent, constructive, collaborative, and partnering relationships with auditees, who consider IAs' findings and recommendations.

Considering the independent variables, most respondents indicated that they do not perceive confusion in their organization regarding who is the most important stakeholder (*MAINSTK*). In fact, only 11% of CAEs indicated that they *agreed* or *strongly agreed* with the statement *There is confusion about who the most important stakeholder in my IA function is*. A possible explanation for this result is that studies in Italy (Allegrini & D'Onza, 2003; Arena & Azzone, 2009) have indicated that a high percentage of CAEs functionally report to the board and that an audit committee is found only in listed companies. Thus, it is likely that many CAEs consider the board to be the most prominent stakeholder, eliminating the confusion regarding the identification of the key stakeholder. A different situation may be found in Anglo-Saxon countries, where CAEs must balance the expectations of its "two masters" (the AC and the SM) and the board, which may create more

TABLE 4 Results of principal component analysis (pattern matrix)

	Component	
	1	2
Auditees are fully transparent towards the internal auditors	0.839	-0.020
Auditees behave constructively when confronted with the IAF	0.827	0.036
Auditees actively collaborate with the internal auditors	0.778	0.068
Auditees consider internal auditors as their peers/partners	0.769	-0.132
Auditees consider IA findings and recommendations	0.609	0.043
There is a minimum collaboration level with auditees and management during audit assignments	0.007	0.992

IA: internal audit; IAF: internal audit function

TABLE 5 Description of the independent variables

Variable	Definition	Measurement
<i>MAINSTK</i>	Confusion about the main stakeholder	A variable with a value between 1 and 5 (<i>totally disagree</i> to <i>totally agree</i>). Respondents were asked to indicate their agreement with the statement, <i>There is confusion about who the most important stakeholder of my IA function is</i> .
<i>INPUTSM</i>	IAF considers the SM's input during audit planning	A variable with a value between 1 and 5 (<i>totally disagree</i> to <i>totally agree</i>). Respondents were asked to indicate their agreement with the statement, <i>For our audit planning, we actively consider the SM's input</i> .
<i>NUMACT</i>	Number of activities	A variable with a value between 1 and 5 (<i>totally disagree</i> to <i>totally agree</i>). Respondents were asked to indicate their agreement with the statement, <i>My IAF performs all audit activity types (e.g. operational audits, financial audits, compliance audits, strategic audits, IT audits, etc.)</i> .
<i>AUDEXP</i>	Internal auditors have audit expertise	A variable with a value between 1 and 5 (<i>totally disagree</i> to <i>totally agree</i>). Respondents were asked to indicate their agreement with the statement, <i>Most of my staff members have an audit profile</i> .
<i>IAMTG</i>	IAF as a management training ground	A variable with a value between 1 and 5 (<i>strongly disagree</i> to <i>strongly agree</i>). Respondents were asked to indicate their agreement with the statement, <i>My IAF is an important training ground for future managers</i> .
<i>REVMETH</i>	The audit methodology is regularly revised	A variable that has a value between 1 and 5 (<i>strongly disagree</i> to <i>strongly agree</i>). Respondents were asked to indicate their agreement with the statement, <i>We regularly revise our audit methodology</i> .
<i>IAFSIZE</i>	IA function size	Number of full-time equivalent employees in the IA function on the date the survey was completed.

IA: internal audit; IAF: internal audit function; SM: senior management

confusion. Likewise, in European countries where companies adopt a "two-tier" governance system, CAEs can perceive confusion between the supervisory board and the management board.

The findings show that 86% of CAEs consider SM inputs during the audit planning process (*INPUTSM*). This result, which is in line with the findings in international studies (Alkafaji, Hussain, Khallaf, & Majdalawief, 2011; Burnaby et al., 2007), confirms that SM requests influence the development of audit strategies and plans.

A large majority of CAEs (75%) indicated that their IAF performs all audit activity types (*NUMACT*) to satisfy an increasing number of stakeholders. In Italy, the IAF must satisfy a greater number of customers than in the past. These include the board, the SM, the operating managers, the external auditors, the AC (where it is present), and other specific control bodies introduced by national legislation (Collegio

TABLE 6 Descriptive results for the dependent and independent variables

Panel A: Dependent variable							
	No (equal to 0)					Yes (equal to 1)	Total
QUALITYREL	67.6					32.4	100.0
Panel B: Explanatory variables							
	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Total	
MAINSTK	23.1	44.9	20.5	10.3	1.3	100.0	
INPUTSM	0	8.0	5.3	68.0	18.7	100.0	
NUMACT	1.3	7.7	15.4	50.0	25.6	100.0	
AUDEXP	0	6.4	21.8	58.7	12.0	100.0	
IAMTG	2.7	16.0	34.7	34.7	12.0	100.0	
REVMTH	1.4	10.8	28.4	54.1	5.4	100.0	

Sindacale, Organismo di Vigilanza 231) (Allegrini & D'Onza, 2003). As these stakeholders' expectations vary, unsurprisingly, many IA functions have adopted an approach based on activity diversification. Comparing our results to those of a global study (Alkafaji et al., 2001; D'Onza, Selim, Melville, & Allegrini, 2015), Italy does not deviate from the trends of other countries where the IAF tends to perform several different activities.

Most of the respondents (69%) indicated that most of their staff members have audit expertise (AUDEXP). This result shows a similar picture to those emerging from studies on the internal auditing profession around the world (Alkafaji et al., 2011) and indicates that IAs' prevailing expertise concerning professional standards, governance, risk, and control frameworks, and understandings of organizational business processes.

Almost 48% of CAEs indicated that they *agreed* or *strongly agreed* that their organization uses the IAF as an MTG. This percentage is slightly lower than those found in US studies (Abbott et al., 2010) and Australia (Christopher et al., 2009), where more than 65% of organizations use their IAF as an MTG. Thus, it seems that, in Italy, the practice of using the IAF as an MTG is less common than in other countries. A possible explanation for this result relates to the amount of time an IAF has existed, based on responses to a specific question. Particularly, 50% of CAEs indicated that their IAF is less than 10 years old. We can suppose that, when an IAF is young, it has not yet matured enough to be used as a training ground for a future managerial position.

Almost 60% of the respondents indicated that they regularly revise their audit methodologies (REVMTH). Thus, the majority of CAEs

adopted a flexible approach in which audit methods are adapted and tailored to the particular type and scope of auditing activities. This is in line with the picture that emerges from the correlation analysis results (Table 6) and indicates a positive and significant correlation between the regular revision of audit methodology (REVMTH) and the number of activities an IAF performs (NUMACT).

Table 7 presents the correlations between the dependent and the independent variables in the regression model. The correlation matrix shows that there are several significant correlations between the explanatory variables. However, multicollinearity does not seem to be a concern.

4.2 | Regression analysis

Table 8 reports the logistic regression analysis results, including all the explanatory variables and the control variable. We report each independent variable's coefficient (β), as well as its related Wald statistic and significance. The last three rows provide the value of the number of valid cases, the χ^2 statistic, and its pseudo R^2 . The results show that the estimated model is highly significant ($p < 0.01$), with a pseudo R^2 of 44%, which indicates that the independent variables explain a significant amount of variation in the dependent variable.

The results support two of our six hypotheses. Particularly, the variable input of SM (INPUTSM) is significant ($p < 0.05$) and is positively associated with an IAF's ability to build high-quality relationships with auditees. These findings support H2, indicating that if a CAE considers the SM's requests during the audit planning process, this positively

TABLE 7 Correlation matrix

	QUALITYREL	MAINSTK	INPUTSM	NUMACT	AUDEXP	IAMTG	REVMTH	SIZE
QUALITYREL	1							
MAINSTK	-0.231	1						
INPUTSM	0.329**	-0.164	1					
NUMACT	-0.112	-0.051	0.199	1				
AUDEXP	0.195	-0.396**	0.180	0.198	1			
IAMTG	0.269*	0.103	0.160	0.044	0.013	1		
REVMTH	0.269*	-0.127	0.210	0.048	0.039	-0.074	1	
IAFSIZE	-0.092	0.103	0.023	0.173	-0.019	-0.094	0.151	1

*The Pearson correlation is significant at the 0.05 level (two-tailed).

**The Pearson correlation is significant at the 0.01 level (two-tailed).

TABLE 8 The logistic regression analysis results

	β	Wald	Sig.
MAINSTK	-0.547	1.439	0.230
INPUTSM	1.503	4.876	0.027**
NUMACT	-0.682	3.387	0.066*
AUDEXP	0.275	0.317	0.573
IAMTG	0.889	5.755	0.016**
REVMTH	0.894	3.508	0.061*
IAFSIZE	-0.002	0.078	0.780
COST	-10.513	6.647	0.010
Number of valid cases			71
χ^2			27.098 ($p < 0.01$)
R ² Nagelkerke			44.30%

*Significant at the 0.1 level (two-tailed).

**Significant at the 0.05 level (two-tailed).

impacts on an IAF's relationships with auditees. The findings also support H5, revealing that using the IAF as an MTG is significantly ($p < 0.05$) and positively associated with IAs' ability to build high-quality relationships with auditees. Thus, the possibility to create collaborative, constructive, and partnering IA–auditee relationships seems more likely when an IAF is used as an MTG.

The results also provide marginal support for H6, showing a significant ($p < 0.10$) and positive association between the regular revision of audit methodologies and an IAF's ability to build positive relationships with auditees.

Regarding the IAF's number of activities (*NUMACT*), notably, our findings show a marginally significant ($p < 0.1$) but negative association with the IAF's ability to build high-quality relationships with auditees. Although the results are not consistent with our predictions, these findings offer interesting insights into a valuable IA strategy; we will now discuss them.

The regression analysis results do not support the remaining hypotheses (H1, H3, and H4).

5 | DISCUSSION AND CONCLUSIONS

We have examined factors that influence the quality of IA–auditee relationships by using data collected from Italian CAEs. Specifically, we examined whether CAEs' perceptions concerning establishing transparent, collaborative, constructive, and partnering relationships with auditees are associated with IA characteristics drawn from the literature. Overall, more than two-thirds of the participant CAEs perceived quality relationships with auditees. Further, almost 50% indicated that, in their organizations, auditees consider IAs as their peers and partners.

The study results show a positive and significant relationship between an IAF's ability to build quality relationships with auditees and: (1) the incorporation of the SM's inputs into the audit planning; and (2) the use of the IAF as a management training ground. Further, for the regular revision of audit methodologies, the results show a positive and marginally significant relationship with our dependent variable.

Regarding factor 1, the findings confirm our initial premise that when the IAF considers the SM's input, the quality of the relationships with auditees improve. An analysis of SM's expectations helps the CAE to understand which activities the C-suite considers key for them and to support the alignment between the audit plan and the organization's strategic plans. Our results show that the IAF also receives benefits for the audit engagement process, because the SM's input helps IAs to focus more on the risks and controls that are considered the most critical to achieving the business process objectives. This can increase appreciation of and satisfaction with the IAF's work, which allows IA findings and recommendations to be accepted and implemented by auditees. The incorporation of the SM's expectations can enhance IAs' ability “to walk in the shoes” of managers and can facilitate empathy with auditees, helping to establish transparent, collaborative, and constructive relationships. On the other hand, alignment between the SM's expectations and the IAF does not mean that an audit is of high quality if the SM's expectations are low (Lenz, 2012). Thus, the SM's inputs could diminish the IAF's ability to build high-quality relationships with auditees.

As predicted, using an IAF as an MTG is positively associated with an IAF's ability to build high-quality relationships with auditees. Many commentators consider these factors to be crucial for an IAF's ability to add value for operating managers (Chambers & McDonald, 2013; Christ et al., 2015; IIA, 2013), which our findings confirm. Our study provides empirical support to arguments in favor of the positive effects that this practice produces regarding IAF quality. Using an IAF as an MTG increases relational satisfaction and relational commitment in interactions with auditees, which positively impact on IA–auditee relationship quality. In particular, IAs rotating in different organizational areas can increase their knowledge about an organization's processes and risks and can increase their business acumen. This would positively impact on relational satisfaction, as auditees have positive expectations about the value of the recommendations a competent IA may provide. Further, using the IAF as an MTG may also influence relational commitment, because the auditees spend energy to maintain and promote relationships with IAs because they know that they are building a future together and that auditors may in future become senior managers.

The incorporation of SM expectations into an audit plan and using the IAF as an MTG both positively impact on IA–auditee interactions. Notably, some studies (Messier et al., 2011; Rose et al., 2013) on the relationships between an IAF and external auditors have arrived at the opposite result, finding that these are negatively associated with an external auditor's decision to rely on IAs' work, because both are seen as variables that diminish IAs' objectivity. Our findings support our initial premise that the factors that help to build high-quality relationships between an IAF and its numerous stakeholders cannot be generalized, because they vary from one stakeholder to another. In other words, some IAF characteristics can add value for some stakeholders while simultaneously destroying value for others.

The findings regarding audit methodologies show that regular revision of audit methods may help an IAF's ability to build high-quality relationships with auditees. The results indicate that IA–auditee relationships will benefit when auditors are able to adapt methodologies to a context instead of following a standardized approach. This will

help auditors to carry out their activities more effectively and will increase their ability to find problems, analyze their causes, and propose appropriate solutions. This result is consistent with the view in the literature that the more flexible an IAF is in the methods used in an audit engagement, the more it can adapt its outputs to auditees' needs, increasing their satisfaction.

Finally, concerning the number of IA activities, we expected a positive relationship with the building of high-quality relationships with auditees. We assumed that the more diversified the IAF activities, the more auditors became expert at identifying the most relevant risks and controls for the business, thereby helping auditees to improve their processes. On the contrary, our results show a negative association between the number of IA activities and an IAF's ability to build high-quality relationships with auditees. These results seem to suggest that the adoption of an approach that seeks to expand the types and number of IA activities to satisfy the greater number of stakeholders may not be the right direction to build high-quality relationships with auditees. A possible explanation is that a diversified strategy can lead to a lack of attention to auditees' needs and/or to insufficient knowledge and resources to effectively manage the large variety of activities. Thus, in some situations, the diversification strategy could produce low-quality outputs that don't meet auditees' expectations and raise doubts about an IAF's ability to provide valuable services. Thus, adding value for auditees implies that CAEs should ask which IA activities an IAF must focus on, avoiding the aspiration to become an expert in everything.

5.1 | Implications for theory

Our findings offer interesting suggestions for academics who study internal auditing. First, our results show that, in the analysis of the factors that enhance IAF quality, studies should consider the involvement of senior managers in audit activities, using the IAF as an MTG, and audit methodologies' flexibility. We found that these factors positively impact on building high-quality relationships with auditees. Second, the model we proposed for the analysis of IA-auditee relationship characteristics can be used and further developed to investigate the relationships between an IAF and other stakeholders. In our view, trust, relational satisfaction, and relational commitment influence IA-auditee relationships but can also influence the strength of the relationships between an IAF and other primary and secondary stakeholders, impacting IAF quality. Also, in our view, these dimensions can be used to develop conceptual models for the analysis of the quality of the relationships between other professional figures such as external auditors and accountants.

5.2 | Implications for practice

Our study's findings have several practical implications. Our results suggest that CAEs should solicit input from SM and should incorporate them both in the audit and in the engagement planning, as this will help an IAF to become much more business-oriented and will focus CAEs' attention on the risks that are the most critical to a business. This will help to build collaborative and constructive relationships with auditees.

Our findings indicate that using the IAF as an MTG positively influences the quality of relationships with auditees. When analyzing the potentiality of an IAF as an MTG, in our view, practitioners should also be aware of the risks this practice holds. As widely debated in the literature, this practice could impair IAs' objectivity (Hoos et al., 2014), because IAs may avoid taking a position against the SM and auditees, especially when they perceive that they depend on them for future career moves.

Finally, our study results suggest that CAEs should regularly revise audit methodologies to adapt them to the specific context in which an audit engagement is performed. This will help an IAF to become more customer-oriented, and will increase audit work effectiveness and the value of IAF recommendations. The ability to revise audit methodologies implies that IAs have the skills and knowledge they need to manage different methodologies. Thus, if the CAE wants to go in this direction, the hiring and the training processes need to be developed so as to achieve this objective.

5.3 | Study limitations

Our study has limitations. First, in line with general trends in questionnaire-based research, the limited number of respondents could impede the generalization of the results, which means that careful interpretation of our findings is required.

Second, this study is based only on the perception of CAEs in the Italian context, and the specific characteristics of the Italian setting (e.g. a large presence of family-owned companies) may influence the findings. For instance, some Italian CAEs work for family firms (that are also listed on the Milan Stock Exchange); for these cases, we cannot exclude that their most important stakeholder may be the CEO or the board chair, who is usually a member of the family-controlled shareholder. We did not investigate this aspect, which is a promising avenue for future research into whether key IAF stakeholders vary on the basis of a company's ownership.

Third, like all studies into the characteristics of the relationships between an IAF and its stakeholders from only the IAF perspective, the measures of the IAF's ability to build high-quality relationships with auditees only reflect the perspectives of internal auditing service providers.

Fourth, like many perceptual studies, the CAE's perceptions may deviate from the realities of practice or may be influenced by "overly optimistic self-assessments by internal auditors" (Lenz & Sarens, 2012, p. 537). Future studies may also consider auditees' perspectives in order to see whether the IAF characteristics they perceive as value-adding factors coincide with or diverge from those we identified here.

5.4 | Suggested future research

This study was a first attempt to examine the factors that influence an IAF's ability to build high-quality relationships with auditees. There are certainly other factors we did not consider; these could be subject to future research. To this end, the increasing literature on an IA's added value may help researchers to identify further potential value drivers for empirical testing. They can also further explore the value drivers that emerged from this study. For instance, the effects of using

the IAF as an MTG on IA–auditee relationships are a promising avenue for future research, considering that this practice is increasingly used in many countries. Future studies may also investigate under which conditions use of the IAF as an MTG can increase IAs' competencies to be able to effectively support auditees.

Our study also suggests that it is likely that the influences of IAF characteristics on an IAF's ability to build high-quality relationships with auditees is mediated by certain variables. Based on OPR studies, we have identified three social constructs (trust, relational satisfaction, and relational commitment) that can impact on IA–auditee relationships without measuring them empirically. Further research could enrich our model by developing measurable factors to operationalize these three constructs, which can help us to better understand how IAF characteristics are associated with IA–auditee relationship quality. These mediators, which precede and influence high-quality relationships, could also be applied to IA relationships with other stakeholders and can help us to better understand why some independent variables in our study may positively affect IA–auditee relationships and may negatively affect relationships with different stakeholders.

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