

THE INTERNAL AUDITING EDUCATIONAL PARTNERSHIP: A NICHE STRATEGY FOR ACCOUNTING PROGRAMS

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ABSTRACT

The history of internal auditing education at the university level has evolved slowly. However, changes in the business environment have increased the demand for properly trained, entry-level internal auditors. Internal auditing is a distinct career that requires more specialized education than has been taught in traditional accounting programs. The Institute of Internal Auditors created the Internal Auditing Education Partnership as a vehicle for accounting departments to develop specialized internal audit education programs. This paper addresses the IAEP program and its implementation at Utah Valley University.

INTRODUCTION

Traditionally, most accounting programs prepare students for careers in public accounting. They focus on financial accounting, taxation, and auditing as foundation knowledge and skills for the Certified Public Accountant examination. The Big 4, regional, and local CPA firms support this focus by providing internships and employment for graduates, as well as financial and other support for accounting programs and faculty.

While preparing students for public accounting careers will continue to be a major focus of most accounting departments, this article examines a niche strategy accounting departments can use to differentiate their offerings. It explores how accounting programs can use elective offerings and the support of the Institute of Internal Auditors (IIA) to prepare students for careers in internal auditing, compliance, and risk advisory services.

HISTORICAL BACKGROUND

Internal auditing education evolved slowly since the establishment of the IIA in 1941. Jerome (1955) questioned whether internal audit should be taught in accounting departments as “the accounting activity

is principally reportorial, whereas, the internal audit function, if properly implemented, must emphasize appraisal.” The internal audit focus is more upon operational efficiency than on financial statements, and “requires a way of looking at problems that is not typically found in most accounting courses.” On the other hand, Van Voorhis (1952) and Sawyer (1975) felt internal auditing should be taught by the accounting faculty. Van Voorhis saw internal auditing as a method of teaching management control.

In the early 1950s, Van Voorhis reported the results of a survey of 135 representative U.S. universities: sixteen schools were offering internal auditing courses and thirteen more were considering an internal auditing course. By 1972, only two colleges taught internal auditing (Neumann, 1972). Barrett, Barker, and Weiss (1974) pointed to an external auditing orientation of auditing courses in the U.S. as most auditing textbooks dropped internal auditing chapters. Internal auditing was “taught by implication in that it has parallels with external auditing, but operational auditing, not having such parallels, is not covered.” Barrett (1974) concluded that internal auditing in the accounting curriculum is small and rapidly shrinking. At the same time, Sawyer (1975) concluded that “the pressures for formal education in modern internal auditing are already being felt.” He attributes this to a rapid increase in the number of internal auditing organizations, the new certification program of the Institute of Internal Auditors, the development of education materials for courses in internal auditing, and an increase in the number of seminars on operational auditing by various professional organizations.

By 1985, Sumners and Roy (1986) found that 44 schools offered one or more courses in internal auditing. Phillips and Lewis (1991) attribute the increase in internal auditing interest to the Foreign Corrupt Practices Act (1977). Phillips and Lewis attributed the slow growth of internal audit education to a lack of experienced faculty and teaching resources, academic emphasis on public accounting, and the misconception that general auditing courses address internal audit requirements.

INTERNAL AUDIT – A DISTINCT CAREER

Internal auditing is a separate profession from general accounting, as they have their own code of ethics, statements of responsibility, and professional standards (Phillips & Lewis, 1991). Internal auditing is “a far cry from the traditional attest function as it follows different audit programs and requires different fieldwork” (Sawyer, 1981). As reported by Jerome (1955), an external auditor focuses primarily on a fair presentation of financial statements while organization efficiency and effectiveness are typically the objectives of an internal audit. Companies are forced to hire people lacking the training of internal auditors as most accounting graduates have been trained with only an understanding of external auditing. Because of the internal auditor’s knowledge about the organization and its operations, they have a greater insight into the possible causes of problems. This gives internal auditors unique and essential positions within the organization.

AACSB advocates breadth in the accounting curriculum to prepare students for the variety of professional careers that are available. A specific requirement was undergraduate exposure to operational auditing (AACSB, 1988).

The current business environment demands more attention to risk assessment, a continuous evaluation of controls, and compliance to sound business practices. The Treadway Commission Report addresses the general business and accounting curriculum, with a significant impact on internal auditing education. The first internal auditing recommendation is that all public companies maintain an adequately staffed internal audit function with qualified personnel (National Commission on Fraudulent Financial Reporting, 1987). The report recommends an in-depth study of internal controls, fraudulent financial reporting, ethical, analytical, and judgment considerations. This has led to an increase in the demand for trained internal auditors. Kusel and Oxner (1987) found that the 1988 demand for new accounting graduates in the internal auditing field constituted approximately 30 percent of the demand of the public accounting job

market. Projections showed that more internal auditors would be needed in the year's ahead (Phillips and Lewis, 1991).

Internal auditing education at the university level addresses the Treadway Commission's recommendations. Treadway's emphasis on fraudulent financial reporting is a major concern in internal auditing. Summers (1985) stated that internal audit education at the university level would provide a primary source of entry-level internal auditors, improve the consistency of training at the entry-level position, reduce overall training costs and increase training efficiency, and increase the awareness and visibility of internal auditing in the university environment. This business environment and the Institute of Internal Auditors' Internal Auditing Education Partnership provide the opportunity at Utah Valley University (UVU) to create a niche strategy for its accounting program.

STRATEGIC ENVIRONMENT

Utah Valley University recently became the largest university in the State of Utah with over 33,000 students. It is also the largest business school in Utah with over 4,400 majors. The business school is accredited by AACSB International.

Some of UVU's students pursue Master of Accountancy degrees at other universities in the state after graduation. The Big 4 accounting firms do not recruit on UVU's campus. One reason for them not recruiting on campus is that UVU does not have a Master of Accountancy program. Some of UVU's graduates work for Big 4 firms by applying directly with them or through their participation with other university MAcc programs.

UVU is located 5 miles from Brigham Young University (BYU) which has a strong placement program with the Big 4 accounting firms. UVU is located 42 miles from the University of Utah (Utah), which also has a strong regional accounting placement program.

While UVU continues to prepare students for CPA careers in public auditing and taxation similar to BYU and Utah, the accounting faculty decided to create a niche strategy by addressing the under-served market segments of internal auditing, compliance, and risk advisory services. In order to help with the development of the internal auditing program, UVU decided to participate in the IIA's Internal Auditing Education Partnership Program.

INTERNAL AUDITING EDUCATIONAL PARTNERSHIP (IAEP)

The IIA developed the IAEP program because of growing university interest in internal auditing education. The IAEP helps prepare students to conduct basic internal audits immediately upon hire which meets the needs of internal auditing practitioners. This section provides a brief overview of program requirements of the IAEP. For comprehensive program requirements, please see the IAEP program website (Internal Auditing Education Partnership Program, 2011).

The IAEP framework (2011) classifies internal auditing programs into three levels: Internal Auditing Foundation (Foundation), Comprehensive Internal Auditing (Comprehensive), and Center for Internal Auditing Excellence (Center). Programs begin at the Foundation level, but are expected to move to the Comprehensive level within a few years.

The IAEP application requires a five-year business plan addressing the sustainability and capacity potential for the program. The local IIA Chapter initiates the IAEP application process, so programs need support from the local IIA chapter. They also need strong support from the department faculty as well as college and university administrators. The application covers the following areas: internal auditing curriculum, program quality, faculty qualifications, and student expectations. The following paragraphs describe major expectations for these areas.

The internal auditing curriculum must consist of at least two core courses recommended by the IIA Global Model Internal Audit Curriculum (IIA Global Internal Audit Curriculum, 2011). One of these courses must be Principles of Internal Auditing. The university must teach these courses a minimum of one year prior to application. For the Comprehensive level, the university must teach Principles of Internal Auditing and two additional courses, one of which must be core. For Centers, the university must incorporate an internal auditing track, concentration, or diploma into a degree program. Also, Centers must provide a minimum of four courses in the traditional classroom format. Faculty may want to consider developing student skills in areas identified in the 2010 IIA's Global Internal Audit Survey titled "Core Competencies for Today's Internal Auditors" (Bailey, 2010).

Program quality includes accreditations, advisory boards, and the number of students completing the IAEP program. The IAEP requires an appropriate accreditation to provide evidence of the quality of the program, e.g. AACSB International. For Foundation programs, the IAEP needs to be within the scope of an existing school or department advisory board. For Comprehensive and Center programs, the program must have an active IAEP advisory board functioning separately or as a sub-section of a school or department advisory board. The advisory board sub-section must consist of internal auditing practitioners. Foundation programs do not require a minimum number of students graduating from the program. The minimum number of graduating students completing the IAEP program for Comprehensive and Center programs are 10 and 25 students per year, respectively.

Faculty must be academically or professionally qualified as specified by the school's accrediting body. They also must have Internal Auditing and Governance, Risk, and Control knowledge. Comprehensive and Center programs require IIA membership and the Certified Internal Auditor (CIA) credential for all teaching internal auditing courses. Faculty also must participate in internal auditing consulting or significant research activities.

Students in Comprehensive and Center programs must become IIA members and attend at least three IIA chapter or student meetings. They must also complete an internship or equivalent co-op time. The minimum percentage of graduating students taking one or more parts of the CIA examination before graduation for Comprehensive and Center programs are 60 percent and 90 percent, respectively.

IMPLEMENTATION STRATEGIES

Successful implementation of an IAEP program requires several key elements: a faculty champion, department support, and practitioner assistance. This section describes each of these areas.

A faculty champion is needed to navigate through the university's curriculum change process and to meet the requirements of the IAEP program. This person develops and delivers the initial Principles of Internal Auditing course. The faculty member could also evaluate what other courses currently in the curriculum might be a good fit for the internal auditing program, e.g. fraud examination or information systems auditing. The individual would complete the IAEP initial application and submit annual reports to the IAEP. They would also be the liaison between the university and IAEP, the internal audit advisory board, and the local IIA chapter officers. This person should be professionally or academically qualified and a Certified Internal Auditor or be able to complete the CIA requirements within a few years.

An IAEP program requires department support to be successful. The program needs faculty support to approve the essential curriculum changes. The program needs department chair support for class scheduling and travel funds for the annual IAEP educators conference, where faculty champions can gain insight on how to improve their programs. Financial support is helpful for faculty to attend local IIA chapter events, so they can interact with internal auditing practitioners. Department chair support is also

needed to develop an internal audit advisory board or to create a sub-section of a current departmental advisory board.

Internal audit practitioners can strengthen the program. A good internal audit advisory board chair can recruit excellent members to the advisory board. One strategy is to invite only chief audit executives and directors of risk advisory service organizations to serve on the board, so that everyone is at the same executive level. Advisory boards should also include officers of the local IIA chapter. It is important to get the decision makers on the advisory board. The program can institute an internal audit advisory forum to involve other internal audit management and staff with presentations and mentoring students.

The program may also consider partnering with the local IIA chapter to present an internal auditing conference. UVU and the Salt Lake City IIA chapter co-sponsor an annual internal auditing conference on the UVU campus. This program gets internal auditors on campus. It also raises funds for the Salt Lake City chapter and provides funds for UVU students to attend IIA chapter lunches and breakfasts at substantially discounted prices.

UVU has seen steady growth in students participating in its internal auditing program. During Fall semester 2011, 37 students enrolled in the principles of internal auditing courses.

CONCLUSION

The development of formal internal audit education has proceeded slowly. In the past, traditional accounting education provided very little, if any, coverage to internal auditing. It was assumed that financial statement auditing courses were sufficient to teach basic auditing skills, even though the objectives and audit procedures of internal auditing are significantly different. The current business environment and greater public awareness of fraudulent business practices increased the demand for qualified internal auditors. The IIA responded by developing educational resources and by establishing the Internal Auditing Educational Partnership (IAEP) to encourage the formal instruction of internal auditing in colleges and universities. Utah Valley University (UVU) saw this as an opportunity to create a strategic niche in the accounting program to meet the growing demand for qualified internal auditors.

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