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**Characteristics of performance of small internal audit activities:  
The case study of organizations in Serbia**

**Abstract**

Internal auditing should establish performance metrics and related measurement criterion appropriate to its environment/organization to measure the degree (including quality) of achievements of objectives for which the internal audit activity is established. The case study of the performance of small internal audit activities in Serbia reveals that high level of regulation contributes to the establishment of objectives which enhance credibility of internal audit activities, although they do not fully comply with the international auditing standards.

**Key words:** The IIA's Common Body of Knowledge (CBOK) survey, internal audit performance indicators, small internal audit activities, coefficients of correlations as rough information, Serbia

1. Introduction

The purpose of this article is to analyze the performance of small internal audit activities based on the results of The Institute of Internal Auditors Research Foundation Common Body of Knowledge (CBOK) survey, "*The IIA's Global Internal Audit Survey 2010*" database of responses from Serbia (6, 2011).

The development of the internal audit profession in Serbia has been closely interrelated with the restructuring of the financial sector during the period of last ten years. Foreign ownership over the majority of banks, and new financial regulations aligned with the European Union, are the two most critical contributors to the modern internal audit profession.

Most internal auditors work in organizations, which belong to the financial industry. The law or regulation specifies the organizational position of the internal audit activity and its role, professional qualifications of internal auditors, details of audit work plan and audit methodology, lines and frequency of reporting and the contents of these reports. We can find very similar regulation in the laws on the banks in surrounding countries in the region, like Croatia and Montenegro. Moreover, the laws on the banks in Croatia and Serbia specify the obligation of the internal audit activity to notify immediately credit institution's senior management and the National bank as the regulatory body, about illegalities or violations of risk management rules (7, 2008 and 8, 2005).

The regulator also establishes the responsibility of external auditors to report its assessment of the operation of the internal audit function. For example, The Law on Banks in Serbia (8, 2005) specifies that external auditors should provide their opinion regarding efficiency of functioning of the internal audit to the bank's board of directors, executive board, as well as to the National Bank. Next to the common internal stakeholder, internal auditors also have two very powerful external stakeholders: the external auditor and the regulator.

In 2008, almost 85 internal auditors established the Institute of Internal Auditors of Serbia (10, 2008). Two years later, in 2010, the number of members increased to about 160 (11, 2010). According to the law, all internal auditors must earn the graduate degree/diploma (9). The significant majority of members graduated in economy. Nearly 80 percent of members work in the financial service industry (11, 2010).

The remainder of this paper is structured as follows. Section 2 discusses the key characteristics and number of respondents, and their organizations. Section 3 presents the results of perception of internal auditing by respondents from Serbia and compares it with the characteristic of two related regions and financial service industry. Section 4 discusses the results of a few survey questions on actual practices, and, finally, Section 5 presents the concluding remarks.

## 2. Respondents to the Global Internal Audit Survey 2010 from Serbia

The 42 auditors from Serbia participated in the CBOK survey 2010. Although the size of respondents represents about 25 percent of total members of the local Institute, the overview of results indicates fair presentation of the stage of the development of the internal auditing

profession in the country. Over 80% of respondents work in the financial services industry, this equates the share of the local Institute members who work in that industry. With the exception of two large banks, most of internal audit activities are small, and consist of one to seven internal auditors, two at average. Although most of the questions discussed in this paper relate to those asked only of CAEs (those in the highest position within the organization responsible for internal audit activities), and as majority of CAEs work in the small organizations, it is reasonable to assume that results of this survey represent the position of small internal audit activity (IAA).

**Table 2-1: Position of respondents in IAA**

	Count	%
CAE or equivalent	11	26.2
Other internal audit positions	20	47.6
Other	11	26.2
Total	42	100.0

**Table 2-2: Characteristics of organizations in which respondents work**

Industry classification			Geographic area served by organization		
	Count	%		Count	%
Non-financial organizations	4	12.9	Local	2	6.5
Financial organizations (banking, insurance)	25	80.6	Regional	2	6.5
Other	2	6.5	National	7	22.5
Total	31	100.0	International	20	64.5
			Total	31	100.0

Size of organization by number of employees			Longevity of organizational internal audit activity		
	Count	%		Count	%
1-50	3	9.7	3-4 years	2	8.7
51-100	1	3.2	5-6 years	6	26.1
101-500	6	19.3	7-10 years	13	56.5
501-1000	4	12.9	11-22 years	1	4.3
1001-5000	15	48.4	Other	1	4.3
over 5000	2	6.5	Total	23	100.0
Total	31	100.0			

### 3. Perception of the internal auditing like a profession

The overview of perception of the internal auditing, like a profession, by respondents from Serbia, presented in this section, is based on the methodology used in the Chapter 2 "Perceived Contributions of Internal Auditing and Organizational Characteristics" of the *A Component of CBOK Study "Measuring Internal Auditing's Value"* (Report III) (2, 2011). Report III focuses on measuring the value of internal auditing and the key factors contributing to the value delivered by local internal audit activities.

In the survey, one of the questions was designed to understand the respondents' perception of the contribution of their internal audit activities. The question contains 15 statements addressing the different aspects of added value of an internal audit activity to its organization. The following table provides the Serbian respondents' level of agreement with each of the value statements analyzed in the Chapter 2 in the Report III (Table 2-1).

**Table 3-1: Perceived Contributions of the Internal Audit Activity**

Items		Dis-agree	Neutral	Agree	Strongly agree	Total
A1: Your internal audit activity is an independent objective assurance and consulting activity.	count %	-	1 10.0	5 50.0	4 40.0	10 100.0
A2: Your internal audit activity adds value.	count %	-	2 20.0	4 40.0	4 40.0	10 100.0
A3: Your internal audit activity brings a systematic approach to evaluate the effectiveness of risk management.	count %	-	1 10.0	5 50.0	4 40.0	10 100.0
A4: Your internal audit activity brings a systematic approach to evaluate the effectiveness of internal controls.	count %	-	-	4 44.5	5 55.5	9 100.0
A5: Your internal audit activity brings a systematic approach to evaluate the effectiveness of governance processes.	count %	1 11.1	1 11.1	5 55.5	2 22.2	9 100.0
A6: Your internal audit activity proactively examines important financial matters, risks, and internal controls.	count %	2 22.2	1 11.1	3 33.3	3 33.3	9 100.0
A7: Your internal audit activity is an integral part of the governance process by providing reliable information to management.	count %	1 11.1	1 11.1	4 44.4	3 33.3	9 100.0
A8: One way your internal audit activity adds value to the governance process is through direct access to the audit committee (or equivalent).	count %	-	2 22.2	6 66.6	1 11.1	9 100.0
A9: Your internal audit activity has sufficient status in the organization to be effective.	count %	2 22.2	-	5 55.5	2 22.2	9 100.0

Items		Dis-agree	Neutral	Agree	Strongly agree	Total
A10: Independence is a key factor for your internal audit activity to add value.	count %	-	-	4 40.0	6 60.0	10 100.0
A11: Objectivity is a key factor for your internal audit activity to add value.	count %	-	-	4 40.0	6 60.0	10 100.0
A12: Your internal audit activity is credible within your organization.	count %	-	1 11.1	3 33.3	5 55.5	9 100.0
A13: Compliance with the <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i> is a key factor for your internal audit activity to add value to the governance process.	count %	-	1 11.1	6 66.6	2 22.2	9 100.0
A14: Compliance with The IIA's Code of Ethics is a key factor for your internal audit activity to add value to the governance process.	count %	-	-	7 77.7	2 22.2	9 100.0
A15: Your internal audit activity meets/exceeds the requirements of The IIA's Code of Ethics.	count %	1 10.0	2 20.0	6 60.0	1 10.0	10 100.0

Presented results are analyzed in two ways. The first one follows the analysis by sub-themes of the "Value Statements Concerning Internal Audit Activity" as presented in Report III (Table 2-2). The second one relates to comparison of results for Serbia with the results for two selected regions, West-Europe (WE) and Europe-Central Asia (ECA), and Financial service industry, as presented in the Report III.

West-European auditing profession significantly influences the Serbian internal auditing profession, as most of Serbian banks' parents are located in Western Europe. On the other side, Serbia is geographically located in the Europe-Central Asia area, and has the similar social and economic environment.

The degree of similarities between local internal auditing profession and these segments is measured by coefficients of correlation. The tables below present the coefficients of correlation among the

distribution of answers within the range from "strongly disagree" to "strongly agree" for respondent from Serbia, WE, and E-CA. The table also presents the coefficients of correlations between Serbia internal auditing profession and the Financial service industry. These coefficients of correlations should be treated only as a rough information on the degree of influence of professional practices (represented by more mature West-European internal auditing practices) and regulation (represented by less mature Europe-Central Asia internal auditing practices) on the development of the profession in the country.

### 3.1. Internal auditing as a value-added activity

As stated by Report III, for an internal audit activity to add value (A2), independence (A10) and objectivity (A11) are two of basic requirements.

As indicated in Table 2, 80.0 percents of respondents from Serbia "strongly agree" and "agree" that their internal audit activities add value to their organizations (A2). This value is far below E-CA (92.2 percent) and WE (94.0), as well as from the Financial service industry (92.6 percent). The pattern of distributions of agreements from "strongly disagree" to "strongly agree" is the most similar to the one of E-CA respondents ( $\rho = 94.4$ ).

For statements A10 (independence) and A11 (objectivity), 100.0 percents of respondents from Serbia "strongly agree" and "agree" with the statements, what is above the results for E-CA (89.9 percent) and WE (93.8 percent), and the Financial service industry (94.2 percent) for A10, as well as for E-CA (95.1 percent) and WE (97.5 percent), and the Financial service industry (97.1 percent) for A11. The pattern of distributions of agreements from "strongly disagree" to "strongly agree" is the most similar to the pattern of distribution of agreements of E-CA respondents (A10:  $\rho = 99.1$  and A11:  $\rho = 100.0$ ).

**Table 3-2: The Pattern of the Distribution of Agreements - Value Added Activity**

	Serbia	Europe-Central Asia	Western Europe	Total	Financial service industry
A2 Your internal audit activity adds value.					
- "Strongly agree" in %	40.0	47.9	38.7	44.2	46.9
- "Agree" in %	40.0	44.3	55.3	48.0	45.7
- "Neutral" in%	20.0	6.0	5.1	5.6	5.6

- Coefficient of correlation ( $\rho$ ) - Serbia and	-	<b>94.4</b>	91.6	94.0	94.2
A10 Independence is a key factor for your internal audit activity to add value.					
- "Strongly agree" in %	60.0	56.6	65.6	60.0	67.7
- "Agree" in %	40.0	33.2	28.2	32.3	26.5
- "Neutral" in%	-	7.2	4.0	4.8	1.3
- Coefficient of correlation ( $\rho$ )	-	<b>99.1</b>	97.0	98.9	96.3
A11 Objectivity is a key factor for your internal audit activity to add value.					
- "Strongly agree" in %	60.0	58.1	70.2	63.9	69.8
- "Agree" in %	40.0	37.0	27.3	32.2	27.3
- "Neutral" in%	-	3.9	1.6	2.3	1.4
- Coefficient of correlation ( $\rho$ )	-	<b>100.0</b>	96.3	98.7	96.4

### 3.2. Systematic approach to evaluate process effectiveness

According to Report III, an internal audit activity contributes to the effectiveness and efficiency of governance (A5), risk management (A3), and control processes (A4) by bringing systematic approach to their evaluation.

The number of respondents from Serbia who "strongly agree" and "agree" with statements A3 (90.0 percent) and A4 (100.0 percent) are highly above of E-CA (A3: 77.2 percent; A4: 88.0 percent), WE (A3: 85.3 percent; A4: 94.6 percent) and the Financial service industry (A3:86.1 percent; A4: 94.4 percent). The number of respondents from Serbia who "strongly agree" and "agree" with the statement A5 is 77.7 percent, is slightly above of the number respondents from E-CA (70.7 percent) and WE (67.7 percent), and the Financial service industry (69.9 percent). The level of agreements with statement A5 is generally below the levels of agreements with statements A3 and A4, which indicates that the less systematic approach to evaluate the effectiveness of the governance process is comparable to two other regions and the Financial service industry.

The pattern of distributions of agreements from "strongly disagree" to "strongly agree" is the most similar to the pattern of distribution of agreements of E-CA respondents for A3 ( $\rho = 99.3$ ) and to the Financial service industry for A4 ( $\rho = 99.6$ ).

**Table 3-3: The Pattern of the Distribution of Agreements - Evaluate Process Effectiveness**

	Serbia	Europe-Central Asia	Western Europe	Total	Financial service industry
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A3 Your internal audit activity brings a systematic approach to evaluate the effectiveness of risk management.					
- "Strongly agree" in %	40.0	32.9	30.5	28.6	28.6
- "Agree" in %	50.0	44.3	54.8	50.4	50.4
- "Neutral" in%	10.0	14.7	10.5	15.0	10.0
- Coefficient of correlation ( $\rho$ )	-	<b>99.3</b>	97.1	96.5	98.7
A4 Your internal audit activity brings a systematic approach to evaluate the effectiveness of internal controls.					
- "Strongly agree" in %	55.5	36.5	45.0	43.9	49.3
- "Agree" in %	44.4	51.5	49.6	47.3	45.1
- "Neutral" in%	-	7.5	3.8	5.9	3.7
- Coefficient of correlation ( $\rho$ )	-	92.4	97.7	91.1	<b>99.6</b>
A5 Your internal audit activity brings a systematic approach to evaluate the effectiveness of governance processes.					
- "Strongly agree" in %	22.2	21.8	18.2	19.0	20.6
- "Agree" in %	55.5	48.9	49.5	48.3	49.3
- "Neutral" in%	11.1	21.8	18.2	19.0	22.1
- Coefficient of correlation ( $\rho$ )	-	54.8	36.4	37.9	45.2

### 3.3. Effective functioning of an internal audit activity

According to Report III, for an internal audit activity to be effective, it should provide independent objective assurance and consulting services (A1), proactively examine important financial matters, risks, and internal controls (A6), and be an integral part of the governance process by providing reliable information to management (A7).

The number of respondents from Serbia who "strongly agree" and "agree" with statement A1 (90.0 percent) is very close to the E-CA (90.7 percent), and below WE (95.8 percent) and Financial service industry (94.4 percent). The same apply for the statement A6. The number of respondents from Serbia who "strongly agree" and "agree" with the statement A6 is 66.6 percent, which is very close to E-CA (69.3 percent), and far below WE (78.3 percent) and Financial service industry (81.5 percent). The number of respondents from Serbia who "strongly agree" and "agree" with the statement A7 is 77.7 percent, which is close to WE (76.6 percent), and below E-CA (81.4 percent) and Financial service industry (82.1 percent).

The pattern of distributions of agreements from "strongly disagree" to "strongly agree" for statements A1 and A7 is the most similar to the pattern of distribution of agreements of E-CA respondents (A1:  $\rho = 96.4$  and A7:  $\rho = 98.6$ ). Although the number of "neutral"

respondents for statement A6 (proactive examination) is closest to E-CA, there is no remarkable similarities between Serbian and three others selected patterns of distributions.

**Table 3-4: The pattern of the distribution of Agreements - Effective functioning of an internal audit activity**

	Serbia	Europe-Central Asia	Western Europe	Total	Financial service industry
A1 Your internal audit activity is an independent objective assurance and consulting activity.					
- "Strongly agree" in %	40.0	48.5	65.0	58.5	66.3
- "Agree" in %	50.0	42.3	30.8	34.6	28.1
- "Neutral" in%	10.0	5.7	1.9	3.5	2.5
- Coefficient of correlation ( $\rho$ )	-	<b>96.4</b>	81.6	87.4	78.5
A6 Your internal audit activity proactively examines important financial matters, risks, and internal controls.					
- "Strongly agree" in %	33.3	22.5	28.2	28.9	30.9
- "Agree" in %	33.3	48.6	50.1	52.7	50.6
- "Neutral" in%	22.2	21.3	15.4	13.3	13.5
- Coefficient of correlation ( $\rho$ )	-	68.5	78.6	77.6	<b>79.4</b>
A7 Your internal audit activity is an integral part of the governance process by providing reliable information to management.					
- "Strongly agree" in %	33.3	34.1	29.1	31.6	36.2
- "Agree" in %	44.4	47.3	47.5	47.7	45.9
- "Neutral" in%	11.1	11.7	15.6	14.7	11.9
- Coefficient of correlation ( $\rho$ )		<b>98.6</b>	97.6	97.6	<b>98.3</b>

### 3.4. Adding value to governance process

International Standards for the Professional Practice of Internal Auditing Glossary defines "governance" as the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives (1, 2011). According to Report III, compliance with *Standards* (A13) and Code of Ethics (A14) is essential for an internal audit activity to add value to the governance process. Also important is an internal audit activity's direct access to the audit committee or equivalent (A8).

Almost 78 percent of the respondents from Serbia "strongly agree" and "agree" that their internal audit activity adds value to the governance process through direct access to the audit committee (A8).

This number is slightly above the Financial service industry (73.2 percent), but far above the E-CA (60.3 percent), and WE (61.1 percent). The perceived contribution of the internal audit activity to add value to the governance process by its compliance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* (A13) and with The IIA's Code of Ethics (A14) by respondents from Serbia is also very high. The number of respondents who "strongly agree" and "agree" with these value statements is 88.8 percent for A13 and 100.0 percent for A14. These numbers are far above from the respondents from E-CA (A13: 75.4 percent and A14: 80.7), WE (A13: 68.5 percent and A14: 70.8), and Financial service industry (A13: 72.3 percent and A14: 76.1).

**Table 3-5: The Pattern of the Distribution of Agreements - Adding value to governance process**

	Serbia	Europe-Central Asia	Western Europe	Total	Financial service industry
A8 One way your internal audit activity adds value to the governance process is through direct access to the audit committee (or equivalent).					
- "Strongly agree" in %	11.1	28.3	24.2	29.8	35.2
- "Agree" in %	66.6	31.8	36.9	38.1	38.8
- "Neutral" in%	22.2	21.8	22.4	19.9	16.9
- Coefficient of correlation (p)	-	77.7	<b>91.4</b>	83.2	73.6
A13 Compliance with the <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i> is a key factor for your internal audit activity to add value to the governance process.					
- "Strongly agree" in %	22.2	29.0	22.7	26.2	29.4
- "Agree" in %	66.6	46.4	45.8	44.2	42.9
- "Neutral" in%	11.1	20.1	22.5	21.2	20.3
- Coefficient of correlation (p)	-	94.4	<b>95.4</b>	94.7	92.6
A14 Compliance with The IIA's Code of Ethics is a key factor for your internal audit activity to add value to the governance process.					
- "Strongly agree" in %	22.2	34.8	27.9	33.3	35.5
- "Agree" in %	77.7	45.9	42.9	43.5	40.6
- "Neutral" in%	-	15.6	21.8	17.5	18.6
- Coefficient of correlation (p)	-	<b>87.8</b>	86.4	86.5	81.0

### 3.5. Organizational status for an effective internal audit activity

As stated by Report III, an effective internal audit activity needs to have sufficient status (A9) and be credible within the organization (A12). Meeting or exceeding the requirements of the Code of Ethics by

an internal audit activity (A15) is essential to maintaining its status and credibility.

The number of respondents from Serbia who "strongly agree" and "agree" with statements A9 (77.7 percent) and A12 (88.8 percent) is very close to the E-CA (A9: 77.3 percent and A12: 84.6 percent), and slightly below WE (A9: 82.0 percent and A12: 92.7 percent), and Financial service industry (A9: 85.2 percent and A12: 91.6 percent). Positive agreements on the statement A15 for Serbia (70.0 percent) is very close to WE (71.4 percent), and slightly below E-CA (78.2 percent), and Financial service industry (77.2 percent).

The pattern of distributions of agreements from "strongly disagree" to "strongly agree" for statements A9 and A15 is most similar to the pattern of distribution of agreements of E-CA respondents (A9:  $\rho = 84.2$  and A15:  $\rho = 95.3$ ) and to the pattern of distributions of Financial service industry respondents for the statement A12 ( $\rho = 95.8$ ).

**Table 3-6: The Pattern of the Distribution of Agreements - Organizational status for an effective internal audit activity**

	Serbia	Europe-Central Asia	Western Europe	Total	Financial service industry
A9 Your internal audit activity has sufficient status in the organization to be effective.					
- "Strongly agree" in %	22.2	34.3	38.4	36.4	42.2
- "Agree" in %	55.5	43.0	43.6	43.7	43.0
- "Neutral" in%	-	11.0	10.6	11.9	8.2
- Coefficient of correlation ( $\rho$ )	-	<b>84.2</b>	78.5	79.6	75.6
A12 Your internal audit activity is credible within your organization.					
- "Strongly agree" in %	55.5	36.9	45.8	42.2	47.8
- "Agree" in %	33.3	47.7	46.9	46.5	43.8
- "Neutral" in%	11.1	11.5	5.6	8.4	6.6
- Coefficient of correlation ( $\rho$ )	-	87.0	93.3	91.8	<b>95.8</b>
A15 Your internal audit activity meets/exceeds the requirements of The IIA's Code of Ethics.					
- "Strongly agree" in %	10.0	21.2	26.5	28.2	29.4
- "Agree" in %	60.0	57.0	44.9	46.8	47.8
- "Neutral" in%	20.0	15.5	23.4	19.7	17.6
- Coefficient of correlation ( $\rho$ )	-	<b>95.3</b>	87.2	87.0	85.9

#### 4. Actual Performance of the CAEs - Key Examples

The results of the perceived contribution of an internal audit activity, as the proxy for its value to the organization, provide a very

positive view on the performance of internal audit activities in the local organizations. To support this impression, this section examines actual performance of internal audit activities by analyzing a few survey questions on their actual practices.

#### 4.1 Compliance with the *Standards*

An approach to the concept of effectiveness of internal audit activities is determined by its fit with the *International Standards for the Professional Practice of Internal Auditing (Standards)* (2, 2011). The tables below present the results for Serbia and summary for total respondents given in the *A Component of CBOK Study "Core Competencies for Today's Internal Auditor" (Report II)* (4, 2011).

**Table 4-1: International Standards - Standards Used**

	Serbia		Total	
	Count	Percent	Count	Percent
Yes - all of the <i>Standards</i>	3	27.3	-	44.6
Partial yes - some of the <i>Standards</i>	6	54.5	-	35.3
No	1	9.1	-	13.1
I do not know	1	9.1	-	7.0
	11	100.0	2,922	100.0

Table 4-1 indicates that 27.3 percent of CAEs in Serbia use of all the *Standards*, compared to 44.6 percent of total CAE who reported the use of all the *Standards* (Report II, Figure 7-3).

**Table 4-2: Full compliance with the Standards**

	Serbia		Total	
	Count	Percent	Count	Percent
Yes	7	63.6	-	46.3
No	4	36.4	-	53.7
Total	11	100.0	2,886	100.0

Table 4-2 indicates that 63.6 percent of CAEs in Serbia reported full organizational compliance with all the *Standards*, while 46.3 percent of total CAE reported full organizational compliance with all the *Standards* (Report II, Figure 7-5).

**Table 4-3: Quality Assurance and Improvement Program in Place (Standard 1300)**

	Serbia		Total	
	Count	Percent	Count	Percent (about)
Yes, currently in place	-	-	-	31

To be put in place within next 12 months	2	22.2	-	27
No plans for put in place in the next 12 months	5	55.6	-	22
The quality assurance program is not in accordance with Standard 1300	2	22.2	-	14
I do not know	-	-	-	6
Total	9	100.0	2,907	100.0

Table 4-3 indicates that no respondents from Serbia currently have a quality assurance and improvement program (QAIP), compared to about 31 percent of total CAE respondents (Report II, Figure 8-1). Moreover, more than 55 percent of Serbian internal audit activities have no plans for putting QAIP in place within next 12 months.

The results presented in this table are also in contrast to the results presented in Table 4-2. If an organization is not using all the *Standards*, it cannot be fully compliant with all the *Standards*.

#### 4.2 Relationship between the CAE and the Audit Committee

Having appropriate access to the audit committee is one of the most important indicators of the independence of the internal audit activity. About 80 percent of respondents indicated that their organizations have audit committees, compared to 70 percent of total respondents. This is not surprising, as 80 percent of respondents from Serbia work in the financial industry, where the law obliges the formation of audit committees. The law also regulates the access of the CAE to the audit committee.

Internal auditing is an important source for the audit committee in the discharge of its oversight activities. Although the relationship of the CAE with the audit committee is of paramount importance, the quality of this relationship is dependent both of the CAE and the audit committee. The effectiveness of audit committee and the relationship of the audit committee and the CAE may be measured by the number of audit committee meetings and the number of these meetings attended by the CAE.

On average, there are two meetings held by the audit committee, compared to four meetings, as indicated by total number of respondents. *A Component of CBOK Study "Characteristics of an Internal Audit Activity" (Report I)* states that it appears that internal auditors are invited to almost all audit committee meetings (3, 2011). The degree of attendance of audit committee meetings by CAE in Serbia, calculated by

the formula "Number of meetings attended / Number of meetings held" is about 60 percent.

**Table 4-4: Audit Committee Meetings held and attended by CAEs in Serbia**

Number of formal audit committee meetings held in the last fiscal year			Number of audit committee meetings attended (entirely or in part) by the CAE		
Number of meetings	Count	%	Number of meetings	Count	%
4	2	28.5	None	2	25.0
5	1	14.3	3	1	12.5
6	1	14.3	4	2	25.0
10-11	1	14.3	5	1	12.5
over 12	2	28.5	6	1	12.5
-			10-11	1	12.5
Total	7	100.0	Total	8	100.0

Moreover, about 74 percent of the total respondents indicate that they meet or talk with the audit committee/chairman in addition to regularly scheduled meeting, compared to 50 percent for Serbia.

**Table 4-5: Communication of the CAEs with their Audit Committees in Serbia**

	Is there an audit committee or equivalent in your organization?		Do you meet or talk with the audit committee/chairman in addition to regularly scheduled meetings?		Do you meet with the audit committee in private executive sessions during regularly scheduled meetings?		Do you believe that you have appropriate access to the audit committee?	
	Count	%	Count	%	Count	%	Count	%
Yes	8	80	4	50	3	37.5	7	77.8
No	2	20	4	50	5	62.5	2	22.2
Total	10	100.0	8	100.0	8	100.0	9	100.0

#### 4.3 Professional proficiency of internal auditors

Internal auditors must have the appropriate and relevant education in auditing that allows them to audit all of the organizational systems (financial, operational, logistical and computerized). Although the law regulates the formal academic education, professional certifications and CPE of internal auditors, many internal auditors thrive to attain international professional certification. Certified Internal

Auditors (CIA) is a professional certification held by 28.6 percent of the respondents from Serbia, compared to 30.3 percent for total number of survey respondents (Report I, Table 2-2). Moreover, almost 50.0 percent of respondents plan to attain this certification in five years. More than 60 percent of internal auditors also receive at least 40 hours of formal training per year.

**Table 4-6: Professional Certification of Internal Auditors in Serbia**

	Current		In five years	
	Count	Percent	Count	Percent
Certified internal auditor (CIA)	12	28.6	21	50.0
Certified Government Auditing Professional (CGAP)	-	-	3	7.1
Certified in Control Self-Assessment (CCSA)	-	-	2	4.8
Certified internal auditor for financial services (CFSA)	1	2.4	4	9.5
Accountant (various)	13	30.9	5	11.9
IT (various)	2	4.8	1	2.4
Other (various)	10	23.8	5	11.9
None	4	9.5	1	2.4
Total	42	100.0	42	100.0

#### 4.3 Methods Used to Measure the Performance of Internal Audit Activities

The table below shows that the top two methods, measured in terms of respondents from Serbia, were acceptance and implementation of recommendations (34.8 percent), and assessment by survey or feedback from the board, audit committee, and/or senior management (30.4). They are followed by the assessment by percentage of audit plan complete (21.7 percent) and assurance of sound risk management and internal control (21.7 percent). These four methods are also among the top five methods measured in terms of respondents from E-CA and WE regions, and Financial service industry (Report III, Table 4-2 and Table 4-3).

**Table 4-7: Methods Currently Used to Measure the Performance of Internal Audit Activities**

	Serbia	Europe-Central Asia	Western Europe	Total	Financial service industry



Percentage of audit plan complete	21.7	11.5	11.4	13.7	12.3
Recommendations accepted/implemented	34.8	11.8	10.7	2.7	9.2
Surveys/feedback from the board, audit committee, an/or senior management	30.4	8.0	11.5	10.8	9.1
Assurance of sound risk management/internal control	21.7	7.5	7.8	8.3	6.9
Timely closure of audit issues	8.7	8.0	4.9	8.3	6.2
Completion of mandated coverage	13.0	4.8	5.8	6.3	7.0
Number of significant audit findings	13.0	7.5	4.7	6.6	5.3
Cost savings/avoidance and improvements from recommendations implemented	17.4	5.4	3.7	5.7	3.6

## 5. Conclusion

Most internal auditors in Serbia work in the financial service industry. Small size and the tremendous level of regulation over their organizational status and functions are the key characteristics of their internal audit activities. Next to the common internal stakeholders, internal audit activities also have two very powerful external stakeholders, the external auditor and the regulator.

Although the analysis of survey results discussed in this report indicates that most respondents believe that their independence and objectivity are key factors for their internal audit activities to add value, they are less sure that their internal audit activities actually add value. Analysis of survey results on systematic approach to evaluate process effectiveness indicate the very high involvement in the evaluation of control process, slightly less in risk management and the least in governance processes. Analysis of survey results on effective functioning of an internal audit activity indicate high perception of internal audit activity as an independent and objective assurance function, less involved in proactive examination of important financial matters, risks, and internal control, but still integral part of the governance process by providing reliable information to management. Compared to above discussed perceptions, the percent of "strongly agree" responses related to statements on adding value to the governance process indicate that internal audit activities in Serbia are less aware on their contribution to this process. Most responses just "agree" that direct access to the audit committee, compliance with *Standards* and *The IIA's Code of Ethics* add value to the governance process. Although most respondents "highly

agree" that their internal audit activity is credible within their organizations, they are less assure that they internal audit activity has sufficient status in the organization to be effective and that it meets or exceeds the requirements of *The IIA's Code of Ethics*.

Analysis the similarities in the pattern of distribution of responses from "strongly disagree" do "strongly agree" of Serbia respondents with the same one of respondents from West-Europe (mature professional practices) and Europe-Central Asia (influenced by high regulation) indicates that the local internal audit environment is most similar to Europe-Central Asia region.

Analysis of results of a few survey questions related to actual performance of internal audit activities generally support the respondent's perception. Partial implementation of the *Standards*, and no Quality Assurance and Improvement Program in place are the key indicators of low level of local internal audit activities performance. Although the law provides the organizational status of internal activity in accordance to the *Standards*, the actual level of communication of CAE's with the audit committees is below the average for the profession. The lack of communication may be linked to the audit committee's understatement of the value of internal audit activities, as they should invite CAEs to their meetings.

Finally, analysis of internal auditors' professional certification of respondents from Serbia indicates that the share of Certified Internal Auditors (CIA) corresponds to the global one. Moreover, almost half of respondents plan to increase their proficiency by earning this certification in five years. Top methods used to measure the performance of internal audit activities in Serbia fully correspond to the top methods used within Europe-Central Asia and Western Europe region, as well as Financial service industry.

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