INSTITUUT VAN INTERNAL AUDITORS NEDERLAND

NON-TRADITIONAL AUDITORS:
BETTER PRACTICES

The Institute of Internal Auditors

PREFACE

This research is performed on instigation of the

IIA Netherlands Professional Practices Committee.

For this research a project group was formed that consisted of the following members:

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A scientific version of this research has been published in MAB: https://mab-online.nl/article/48602/.

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BACKGROUND

Expectations of Internal Audit Functions (IAFs) are increasing, consequently IAFs need to improve their skills, understanding and capabilities. [1] ECI-IIA's recent 'Risk in Focus 2020' report highlights that organizations face a changing world in which political uncertainty and climate change increasingly impacts organizations. Combined with the effects of digitalization on business models the risk landscape has changed. The report indicates a ´risk/audit gap'. IAFs spend too much time on ´traditional´ audit topics that have been surpassed by risks with a higher priority.

RESULTS

To bring a high level of expertise on-board IAFs increasingly include persons that are not trained as an auditor and/or have no experience in performing internal audits. These non-traditional auditors, often named rotational auditors, guest auditors or 'subject matter experts', function as part of the IAF for a specific period of time and come from within the organization or are hired from outside. This practice ensures the IAF has the expertise and skills required to meet today's reality and brings fresh ideas, perspectives and motivation to traditional internal auditors. The temporary use of internal non-traditional auditors also exports appreciation of governance, risk and control as well as appreciation of the role of the IAF within the organization (Christ, et al., 2015).

At the same time engaging non-traditional auditors provides (professional practice) challenges as they usually have limited experience and knowledge about internal audit and might be conflicted in their objectivity and independence. Deployment of non-traditional auditors within IAFs therefore could endanger some of the core principles of Internal Auditing.

This research is a follow-up based on the IIA Netherlands Committee of Professional Practices (CPP) event 'Non-traditional auditors in the IAF' organized in November 2018. In preparing this event, a survey was conducted amongst the participants. During the event experiences when using non-traditional auditors in the IAF were shared and discussed. Although participants in general were enthusiastic about the benefits non-traditional auditors bring to internal audits, actual experience was limited, and questions were raised about how to deal with practicalities.

PURPOSE

The purpose of this document is to share better practices regarding the use of non-traditional auditors in the IAF. These real-life examples are recommended protocols put in place to profit from the advantages of using non-traditional auditors, to ensure their valuable inputs contribute to the objectives of the audit function without compromising the quality of the audit process and its outputs.

The audience of this research are internal audit departments and internal auditors. Additionally, the results of this research might help non-traditional auditors to successfully perform internal audits.

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[1] https://www.eciia.eu/2019/09/risk-in-focus-2020-hot-topics-for-internal-auditors/

CHAPTER 2

RESEARCH: QUESTIONS AND METHODOLOGY

This chapter extends on the research questions and the research design.

RESEARCH QUESTIONS

The central question answered in this research is *'What are better practices in working with non-traditional auditors in the internal audit function?'* Based on the three topics identified above the following sub-questions are formulated:

- *What are better practice controls to mitigate the risk of a lack of competence of non-traditional auditors in the audit?*
- *What are better practice controls to mitigate the risk of impaired independence/objectivity of the IAF and non-traditional auditors?*
- *What are better practices around the selection and reward of non-traditional auditors in the IAF?*

RESEARCH DESIGN

This study is an explorative one, it aims to explore the Internal Audit field and to present better practices around using non-traditional auditors in the IAF. The better practices have been gathered using two sources:

- Study of scientific research about non-traditional auditors;
- Interviews with representatives of IAFs.

Interviews

The goal of the interviews was to provide real-life examples when engaging non-traditional auditors. Qualitative data was collected using a semi-structured interview approach with an interview guide[2] prepared to provide focus during the interviews[3]. This approach allows for rich data to be collected. The interviews have been transcribed in a summarized form and validated with the interviewees to ensure correctness. The interviews have thereafter been coded and analyzed. The results of the interviews and analysis are presented in anonymous form on request of (several of) the interviewees.

Interviewees

We have approached IAFs that make use of non-traditional auditors. The IAFs were found via personal connections of the authors as well as via IIA Netherlands and its committee of professional practices. We were introduced either via intermediaries or by contacting interviewees directly (by e-mail / LinkedIn). Interviewees all worked as internal auditors within IAFs or recently (within the last six months) left an IAF. A majority of the interviewees were Chief Audit Executives, others were mostly working as professional practice representatives.

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[2] See appendix 2.
[3] https://en.wikipedia.org/wiki/Semi-structured_interview

A total of 19 interviews were conducted with 17 different organizations. The organizations are active in a diverse range of sectors (including but not limited to financial services, manufacturing, professional services, fast-moving consumer goods, semi-governmental, construction and natural resources). The size of the IAFs ranged from less than 10 FTE's up to several hundreds of FTE's employed. In our interviews we found examples of all types of non-traditional auditors. We noted a relatively even split between the use of rotational auditors, guest auditors, and subject matter experts.

Additionally, we noted that the majority of non-traditional auditors was internal and not sourced from external organizations.

CHAPTER 3

DEFINITIONS AND ADVANTAGES OF USING NON-TRADITIONAL AUDITORS

This chapter extends on the concept of non-traditional auditors: it provides definitions

of non-traditional auditors and highlights advantages of using these auditors.

DEFINITION OF NON-TRADITIONAL AUDITORS

Neither literature nor the IIA's IPPF provide a clear definition of the concept of non-traditional auditors. Therefore, the project group developed definitions to be used in this research based on the project groups' experience in the internal audit field and validated these with part of IIA Netherlands' network of internal auditors responsible for professional practice (during an event held on the 8th of November 2018).

Prior to defining a *non-traditional auditor*, it is considered what defines an *auditor* in the context of this investigation:

An auditor is a person working for an internal audit department with an educational background in auditing.

In The Netherlands an educational background in auditing typically entails a RA (Registered Accountant), RO (Registered Operational auditor), RE (Registered EDP auditor) or CIA certification but might also include other (internal) audit

related education. This leads to the definition of a *non-traditional auditor*:

Non-traditional auditors are all persons that do not have an educational background in auditing yet work for an internal audit department.

TYPES OF NON-TRADITIONAL AUDITORS

Throughout the scientific literature and IIA's IPPF[4] different types of non-traditional auditors are mentioned. Three different types of non-traditional auditors come forward:

- Guest auditors;
- Rotational auditors;
- Subject matter experts.

We searched SSRN and Google Scholar databases with a wide range of search terms around internal auditing and the different kinds of (non-traditional) auditors. The search resulted in a series of articles found in different publications related to business, organizations and (management) accounting.

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[4] See for example the Implementation Guidance for Standard 2030 and 2230.

Based on literature and the project group's own experience an additional dimension is added to the different types of non-traditional auditors: internal versus external. Scientific research shows that (part of) Internal Audit services are increasingly sourced through third parties (Mubako, 2018), including both auditors and non-traditional auditors (for example by hiring subject matter experts). Other research indicates (Christ, et al., 2015) a positive link between outsourcing (part of) the internal audit function and the use or rotational auditors, although a conclusive explanation for this is not provided.

Within this study only externals that qualify as non-traditional auditors are considered. Trained auditors from an external organization joining an IAF do not qualify as non-traditional auditors according to the definition above, even though different IAFs consider these auditors to be a 'guest' to the IAF.

Clear and coherent definitions for the different types of non-traditional auditors are not always provided within literature. In line with (Christ, et al., 2015) this research will use the following types of non-traditional auditors:

- **■** *Guest auditor*: a person with a career outside the internal audit profession, temporarily joining an IAF in one or more audits, for a specific period of time. Two subtypes are considered: an *internal guest auditor* from within the organization and a *hired guest auditor* from outside the organization.
- **■** *Rotational auditor*: a person with a previous career outside the internal audit profession, joining an IAF for 1 – 5 years, with the intention to rotate back to a different role outside the IAF. Two subtypes are considered: an *internal rotational auditor* from within the organization and a *hired rotational auditor* from outside the organization. The hired rotational auditor is also called *an exchange auditor*.
- **■** *Subject matter expert (SME)*: a person from another function or organization, who is participating in (part of) one or more audits mainly for his/her knowledge of the subject of the audit. In comparison with the guest and rotational auditor the subject matter expert often does not engage throughout the entire internal audit process. Two subtypes are considered: an *internal subject matter expert* from within the organization and a *hired subject matter expert* from outside the organization.

The table below summarizes the types of non-traditional auditors and their expected contribution.

Types of non-traditional auditors		Expected contribution		
		Audit execution support		Subject matter expertise
Source	Internal	Guest auditor	Rotational auditor	Guest SME
	External	Hired guest auditor	Hired rotational auditor	Hired SME

Table 1

ADVANTAGES IN USING NON-TRADITIONAL AUDITORS

The use of non-auditors within the IAF brings benefits to the IAF, the organization as well as the organization. Table 2 provides an overview of the advantages found in academic literature.

Advantages of using non-auditors	For the non-auditor	For the IAF	For the organization
Exports an appreciation of governance, risks, and controls throughout the organization.		X	X
Acquisition of more in-depth knowledge of the respective business area		X	
Cultivation of better customer relations		X	X
Heightened awareness of organizational sensitivity and business acumen		X	
Improvement of personal and career development	X		X
Infusion of fresh ideas and perspectives, motivation to current internal auditors		X	X
Creates an appreciation of the role of the internal audit function		X	X
Enhancement of specific internal audit skills and competencies	X	X	
Evolving view of internal audit as a potential source of talent for the enterprise		X	X

Table 2

Source: Bond (2011), Bartlett et al. (2016), Bartlett et al. (2017), Christ et al. (2015) and Hansen et al. (2013).

CHAPTER 4

RESULTS

In this chapter we answer the research questions of this study:

What are better practices in working with non-traditional auditors in the Internal Audit Function?

Three sub-topics were identified:

- Question 1: Competency & Quality;
- Question 2: Independence & Objectivity;
- Question 3: Selection & Reward.

The questions are answered based on the analysis of literature and interview results.

The interviews offered insight into the practices IAFs developed to manage non-traditional auditors and the associated risks and to ensure that non-traditional auditors are value adding to the audit function. These 'better practices' are real-life examples of the recommended protocols put in place to get the best out of non-traditional auditors and ensure their valuable inputs contribute to the objectives of the audit function without compromising the quality of the audit process and it's outputs. The research shows there is no 'one-size-fits-all' approach. Size of the IAF seems to matter: bigger IAFs have more formalized ways of working than smaller ones.

Literature studied showed a negative relation between the use of non-traditional auditors (rotational auditors) and the effectiveness and quality of the internal audits performed. The interviewees consistently had an opposite perception of this relation, according to them the use of non-traditional auditors increases the quality and effectiveness of the IAF. They stated that the increase in organizational knowledge and expertise added by involving non-traditional audi-

tors ensures the internal audit team includes the relevant organizational/business context, provides useful recommendations to findings and thereby improves acceptance of the internal audit work. A possible explanation of this discrepancy can be found in kind and scope of internal audit work performed: the literature focused on financial reporting activities while the IAFs in this study focused on operational audits.

PRACTICALITIES IN USING NON-TRADITIONAL AUDITORS

Throughout scientific literature, the IIA's IPPF and based on IIA Netherlands' CPP event of November 2018 three main topics of interest come forward when using non-traditional auditors in the IAF:

- Competence and quality;
- Independence and objectivity;
- Selection and Reward.

These topics are explained in detail below.

Competence and quality

COMPETENCE

The IIA's Standard 1210 states that *'Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities'.* Therefore, competence is an important requirement for IAFs. Literature indicates that competence may be a challenge for non-traditional auditors. Internal auditors

that view internal audit positions as a stepping stone or temporary step in their career are less likely than career auditors to pursue training and certifications that improve their internal audit competence. (Anderson, et al., 2010). In addition, the constant rotation out of the IAF diminishes the overall IA experience and expertise of the function relative to models with "career" auditors. (Christ, et al., 2015).

Internal audit education contains topics about internal audit processes (professional practices) and often also focuses on financial reporting. These competences provide a fit with 'traditional' internal audits around (internal control over) financial reporting, for example based on Sarbanes-Oxley (SOx) legislation. In these kinds of audits there is a (potential) competence gap between internal auditors and non-traditional auditors around both professional practices and knowledge about the topic at hand. For audits related to other risks (not financial reporting related) this competence gap might be limited to professional practices as the non-traditional auditor might be equally or even more competent than the internal auditor regarding the specific non-financial audit subject. This is also confirmed by interviewees speaking with (Christ, et al., 2015): *"Many of our interviewees believed the gain in organizational expertise could outweigh the loss of audit expertise."*

INTERNAL AUDIT QUALITY

Literature mentions quality compromises in relation to rotational auditors (Mubako & Mazza, 2017). (Hansen, et al., 2013) found:
"that internal audit functions that use the rotational model have lower internal audit quality, an aggregate score combining dimensions of internal audit experience, certifications, training, size, and objectivity. These companies also tend to have higher turnover and outsource more of the internal audit function than companies with career internal audit staffing models. [...] the risk of the company engaging in in-

appropriate or aggressive financial reporting is greater for organizations that use the rotational model than those that do not. Lower internal audit quality and higher risk of inappropriate or aggressive financial reporting suggest that internal audit functions using the rotational model are, on average, less effective than those with career internal auditors. This effect is exacerbated when the CAE position is rotational."

Most of the literature focuses on internal audit work related to financial reporting and does not specify the effect of non-traditional auditors on internal audit quality of internal audit activities not related to financial reporting.
For guest auditors and SMEs, we assume similar risks as these non-traditional auditors similarly have limited internal audit experience, certifications and training. Research is not conclusive on the effects on quality when comparing in-house internal audit departments versus outsourced internal audit departments (Mubako, 2018).

Independence and Objectivity

Literature indicates that the use of non-traditional auditors has the potential to impair independence of the IAF and impair objectivity of the (non-traditional) internal auditor (Christ, et al., 2015). The concepts of independence and objectivity are central in the IIA's IPPF and at the core of the internal audit profession. These concepts are defined as follows:

*"**Independence** is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner."*

*"**Objectivity** is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others."*[5]

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[5] IIA's International Standards for the Professional Practice of Internal Auditing, Standard 1100.

The concept of independence is tied to the IAF whereas the concept of objectivity is tied to the Internal Auditor.

Non-traditional auditors (specifically rotational auditors) work in the IAF for a specific period with the goal of moving on in a different (possible managerial) position in the organization. As part of their internal audit assignment they might have to audit the managers that are considering them for a future role. This can open the non-traditional auditor to social pressures and economic interest and therefore threaten objectivity. Prior research using experiments have demonstrated this for rotational auditors. (Christ, et al., 2015).

Regarding external non-traditional auditors different dynamics are in play (Mukabo,2018). As they are not employees of the organization they do not face the same social pressure and economic interest, thereby being more independent than in-house internal auditors (Bartlett, et al., 2017; Loh, et al., 2019). Research shows that outsourced internal auditors are less compromised in their objectivity. On the other hand, outsourcing (part of) the IAF opens up the possibility of other independence concerns when the party to whom the IA services are outsourced is also providing other services to the organization.

Other research demonstrates independence impairments of internal auditors' risk assessments. IAFs without rotational auditors perform risk assessments that do not significantly differ when sending reports to senior management versus sending reports to the audit committee. A difference does occur when the IAF contains rotational auditors: internal auditors' risk assessments contain significantly lower risks when the IAF reports to senior management than when the IAF reports to the audit committee. Additionally, when the IAF does contain rotational auditors, the internal auditors provide more favorable recommendations than when no rotational auditors are involved (Hoos, et al., 2014). Another study of (Christ, et al., 2015) concludes that the use of systematic (formalized) rotation is associated with higher accounting risk: "This result suggests that systematic rotation weakens the effectiveness of internal audit's monitoring of financial reporting within the organization".

Selection and reward

A third topic briefly coming forward in both literature and IIA's IPPF is the selection and reward of non-traditional auditors. Prior research has been conducted about the factors influencing the recruitment of business professionals into internal audit (Bartlett, et al., 2017). It shows that high-performers are more interested in internal audit work if the work would be 'less boring / tedious' whereas low performers are motivated by financial aspects.

Additionally, during the IIA Netherlands' professional practice event on non-traditional auditors concerns and questions were raised about the topic of selection and rewarding of non-traditional auditors. Finding and recruiting the right non-traditional auditors was identified a key challenge for IAFs.

BETTER PRACTICES REGARDING COMPETENCY & QUALITY

The literature review revealed the following practices to handle competency and quality of non-traditional auditors:

- Consistency and continuity of IA supervision;
- Limiting the use of non-traditional auditors to specific phases of the audit.

During the interviews respondents shared the practices and controls they put in place when engaging non-traditional auditors to mitigate these risks and overcome the associated challenges. The 5 measures identified are shown in table 3 below. Items flagged with an asterisk were identified in both the interviews as well as the literature review.

Each of these five measures is equally applicable for rotational, guest, and SME non-traditional auditors, except for (ongoing) training courses for SME's: some IAFs train SMEs ongoingly while others don't. Due to the specialized nature of their contribution, and relative (expensive) cost, it may not be cost effective for all IAFs to require SMEs to follow training courses. Here follows an explanation of each of the cited mitigating measures.

Consistency and continuity of IA supervision

The literature review reveals that supervision, including quality review, training, and training and mentoring on job all contribute to improved audit competency and quality of audit outputs by non-traditional auditors. These factors were confirmed by our interviews as well. Key elements of IA supervision mentioned during the interviews include the following tips:

- Provide on-site supervision during audit execution to non-traditional auditors. Ensure they have an audit team lead or supervisor to whom questions and concerns can be addressed. This may include accompaniment during interviews and other key interactions with audit stakeholders such as audit close-out meetings.
- Provide coaching, and training on the job to accelerate learning, and quickly reduce the top competency and quality related issues facing non-traditional auditors.
- Allocate a quality reviewer for all deliverables prepared by the non-traditional auditors prior to a final review taking place.
- In case of larger IAFs, allocate a dedicated Professional Practice Quality leader who reviews all audit deliverables and the Internal Audit methodology to ensure the IAF is operating in line with recognized quality standards at all times.

Mitigating control	Rotational auditor	Guest auditor	SME
Consistency and continuity of IA supervision*			
Limiting the use of non-traditional auditors to specific phases of the audit*			
On-boarding training			
Training courses (ongoing)			
Knowledge sharing & on-the-job learning			

Table 3

These examples of supervision and quality review should largely mitigate quality related issues associated with engaging non-traditional auditors.

Limiting the use of non-traditional auditors to specific phases of the audit

To reduce the risk of compromises to audit quality, some IAFs allocate non-traditional auditors to specific audit activities such as audit execution (fieldwork). Other audit activities are taken on by career internal auditors. Such activities include: final say on audit scoping, communications with higher profile stakeholders, report editing and drafting, and remediation monitoring. Some interviewees stated that guest auditors best be allocated to tasks and responsibilities in line with their strengths which may include key language skills, business knowledge and subject matter expertise rather than the full spectrum of audit activities. Typically these strengths are more used in direct interactions with auditees, for example in interviews and closing/report meetings rather than in 'behind-the-scenes' work such as internal audit file work or testing of documentation.

Example: the IAF of a multinational project-based company extensively uses guest auditors for project audits to bring specialized and real-world expertise on board of the internal audit teams. These guest auditors usually have senior positions in the organization and decade's worth of project experience and provide the IAF with the opportunity to have serious and constructive conversations with the business. The IAF makes a conscious decision to limit the use of these guest auditor to activities (review of the scope of the audit, joining interviews and closing meetings, review the report) while the core internal audit team handles the full scope of activities and ensures the quality of the work. This setup is also attractive for the senior leaders as joining the IAF is only requesting limited time (several days of fieldwork and additional review time before and after) in comparison with joining a full audit (taking multiple full-time weeks).

ON-BOARDING TRAINING

The most commonly cited means to improve non-traditional auditor's audit competency and thereby mitigate quality risks is to deploy on-boarding training for non-traditional auditors. Interviews cited the following topics typically to be covered in onboarding trainings:

- IA Methodology: including topics such as the internal audit execution approach; key action check lists; audit scheduling approach; and timing and key activities.
- Audit techniques: including interview techniques; critical thinking; sampling; risk assessment, control testing; and report writing techniques.
- Internal Audit basics: process basics, risk basics, control basics; issue identification; root causes analysis.

Such on-boarding training is designed to provide a crash course to non-traditional auditors and ensure that the most critical elements of audit techniques are covered prior to handing over responsibilities to the non-traditional auditors.
The amount of formalization differs per IAF, with larger IAFs having a more structural training developed and held on fixed periods in time, while smaller IAFs use less formalized methods.

TRAINING COURSES (ONGOING)

Similar to the on-boarding training, interviewees also shared examples of ongoing training, particularly for rotational auditors and guest auditors that are engaged for longer periods of time (longer than 1 year). Examples of such trainings include summer training programs, annual team learning events, and IIA hosted events. Here again the primary aim of these training courses is to bring non-traditional auditors up to speed on the latest and most critical Internal Audit techniques required for the non-traditional auditors to deliver quality audit outputs.

KNOWLEDGE SHARING & ON-THE-JOB LEARNING

Interviewees also cited the use of SharePoint and other knowledge sharing portals specifically established for non-traditional auditors to share knowledge, tips and tricks with each other. Such portals aim to provide non-traditional auditors with a forum to collaborate and share better practices. Non-traditional auditors are often well placed to provide training to each other given the similarity of their circumstances, and may, in some cases, be the ideal candidates to know what information is most helpful for other non-auditors at a given stage in their IA development.

Example: an education provider's IAF uses guest auditors in their internal audits where each guest auditor joins several audits per year. These guest auditors have extensive educational experience and raise the quality of internal audits. To improve their internal audit skills (next to a formal two-day training) the pool of guest auditors periodically comes together to share experiences and learn from each other.

BETTER PRACTICES REGARDING INDEPENDENCE AND OBJECTIVITY

This paragraph provides the answer to the second research question: *What are the better practice controls to mitigate the risk of impaired independence/objectivity of the IAF and non-traditional auditors in the audit?*

Based on the literature review the following mitigating measures were identified:

- Consistency and continuity of IA supervision;
- Audit Committee oversight;
- Separation of internal audit staff and staff used for non-audit services;
- Limiting the use of non-traditional auditors to specific phases of the audit;
- Prohibition to audit the department for which they have been worked before;
- Conflict of interest statement.

The interviews identified the measures included in table 4 to be used to mitigate the risk of impaired independence and objectivity. Comparison of these two lists revealed the following: While several measures have been identified in both [marked with an asterisk (*) in table 4], other mitigating measures only were identified in either one, the literature review or the interviews.

Mitigating measure	Rotational auditor	Guest auditor	SME
Creation of awareness	■	■	■
Openness about career developments	■	■	(internal)
IAF leadership involvement	■	■	■
Supervision / review by lead auditor*	■	■	■
Explicit adaption of IIA Code of Ethics	■	■	■
(Annual) Independence declarations*	■		
Independence confirmation letter per audit*		■	■
Application of cooling-off period*	■		
Limitation of audit areas/locations*		■	■
Clear communication on role models	■		
Audit evaluations	■		
External sourcing *		■	■

Table 4

Audit Committee oversight and limiting the use of non-traditional auditors to specific phases of the audit were not mentioned during the interviews, probably as IAFs are less aware of the mitigating effect of these measures. Specifically, with respect to the involvement of non-traditional auditors in the audit execution all interviewees indicated that they do not apply restrictions, on the contrary, non-traditional auditors are usually used throughout the entire internal audit process.

During our interviews we identified mitigating measures applying to all types of non-traditional auditors, as well as measures specifically applying to rotational auditors on the one hand or guest auditors and SMEs on the other hand.

GENERAL MEASURES TO ENSURE INDEPENDENCE/OBJECTIVITY (APPLICABLE TO ALL NON-TRADITIONAL AUDITORS)

Several better practices can be used to prevent the impairment of independence or objectivity of non-traditional auditors independent of the type of non-traditional auditor. These are listed below.

CREATION OF AWARENESS

Several interviewees indicated the importance of continuous and open discussions to be held to ensure adequate mindset regarding objectivity and independence. They require audit team members to challenge each other on an independent and objective mindset and behavior during all phases of the audit. It needs to be clear to all team members that no close relations or career perspectives may be at play to adequately ensure independence and objectivity.

OPENNESS ABOUT CAREER DEVELOPMENTS

Some IAFs use open and regular communication about the (non-traditional)auditor's next envisioned career steps outside of the IAF to prevent impairment of independence and objectivity. Such measure may be less effective in case of external guest auditors and/or SMEs.

Example: a company active within the natural resources sector uses rotational auditors in their IAF. Business professionals join the IAF for a specific period of time. It has institutionalized discussions around next career steps as part of performance evaluation processes to prevent impairment of independence and objectivity as well as to make the rotational audit model beneficial to non-traditional auditors. Additionally, whenever rotational auditors apply for a new role in the company's HR system, the internal audit managers will receive updates ensuring that (possible) conflict of interests become transparent.

IAF LEADERSHIP INVOLVEMENT

One IAF representative stressed that an independent and objective mindset is not only an individual responsibility; ensuring independence and objectivity ultimately is leadership's responsibility. Therefore, staff should be encouraged to approach leadership in case they encounter potential independence issues. It takes a joined effort from the CAE and each (non-traditional) auditor to adequately manage objectivity/independence issues.

SUPERVISION/REVIEW BY LEAD AUDITOR

Literature as well as the interviews revealed that possible impairment to objectivity may be prevented by having the lead auditor, who is part of the IAFs core team respectively a permanent IAF staff member, reviewing the work performed by the non-traditional auditor. Keeping the overall responsibility for the audit not with the (temporary) non-traditional auditor may be a good measure to mitigate possible independence/objectivity impairments.

Example: In preparing an audit one IAF requests the lead auditor to complete a quality questionnaire with questions about among others clear scope, possible limitations by the auditee, and sufficient (competent, knowledgeable, and independent) staff. It is expected (and communicated

to) every (non-traditional)auditor that they need to pro-actively - or at least when asked by the lead auditor – indicate whether they are independent and can execute the audit objectively, and if not that they would retreat from the audit team.

EXPLICIT ADOPTION OF IIA CODE OF ETHICS
Some interviewees indicated that they prevent limitations to independence/objectivity by requiring non-traditional auditors to explicitly confirm that they will adopt the IIA Code of Ethics.

MEASURES TO ENSURE INDEPENDENCE/ OBJECTIVITY APPLICABLE TO ROTATIONAL AUDITORS
The following better practices have been identified specifically with respect to rotational auditors.

(ANNUAL) INDEPENDENCE DECLARATIONS
Literature as well as interviews indicate that independence/objectivity may be ensured by requesting rotational auditors to sign an independence declaration when starting within the IAF as well as asking for a periodic (e.g. annual) reconfirmation and/or an ad hoc reconfirmation in case of any changes. By these declarations rotational auditors explicitly confirm that their objectivity and independence is not at stake due to prior work and/or close relationships.

APPLICATION OF COOLING-OFF PERIOD
Strict application of a general rule prohibiting rotational auditors to audit the area where they have been working previously for a certain period of time (e.g. 1 year) may ensure independence/objectivity according to literature and information provided during the interviews.

CLEAR COMMUNICATION ON ROLE MODELS
A better practice was identified with respect to open communication on the fact that rotational auditors that critically challenged the status quo during their audits respectively performed audits with great impact more likely than not were able to obtain

desirable management positions after rotating back into the business. This better practice may mitigate the risk that rotational auditors may be tempted to be less objective during their audits and possibly restrain from negative audit opinions in order to not endanger future career opportunities.

AUDIT EVALUATIONS
One IAF prevents impairment of independence/objectivity by conducting feedback sessions after every audit. In these sessions rotational auditors are challenged on their decisions by their peers.

MEASURES TO ENSURE INDEPENDENCE/ OBJECTIVITY APPLICABLE TO GUEST AUDITORS AND SMES
We noted that often the same better practices applied with respect to guest auditors and SMEs, probably as both types of non-traditional auditors are working within the IAF for only a short period of time.

INDEPENDENCE CONFIRMATION LETTER PER AUDIT
Several interviewees stated that guest auditors and SMEs are requested to sign a letter declaring that no conflict of interest applies with respect to the audit they will be involved in, e.g. no prior work history and/or personal relationships etc. in order to safeguard independence/objectivity.

LIMITATION OF AUDIT AREAS/LOCATIONS
Strict application of a general rule prohibiting guest auditors and/or SMEs to participate in audits of the department or processes they work for may ensure independence/objectivity was mentioned by several IAF representatives.

Example: Despite the above, an IAF of an internationally operating company was able to exploit the specific knowledge and experience of guest auditors and/or SMEs, by engaging them in the field of their experience (i.e. finance or risk), in another part/country of the organization.

EXTERNAL SOURCING

IAF representatives of smaller organizations indicated that internal staffing with guest auditors or SMEs often cannot be arranged for due to independence and objectivity limitations. Their solution to this problem was hiring external resources (external guest auditors and/or external SMEs). A fresh pair of eyes from an outsider, not involved in the processes or departments to be audited can operate more independent and objective.

Example: an education provider's IAF uses guest auditors from other educational institutions. The institutions together created a pool of guest auditors that audit other institutions (where a guest auditor from organization X audits organization Y, and the guest auditor from organization Y does not audit organization X, but rather organization Z). On a periodic basis the institutions meet, share experiences and develop the guest auditors.

BETTER PRACTICES REGARDING SELECTION & REWARD

In this paragraph we will answer the third research question: What are better practices around the selection and evaluation of non-traditional auditors in the IAF?

For many IAFs attracting suitable candidates is a challenge. In literature hiring practices are described. The different better practices that were mentioned during the interviews are summarized in the table below and differentiated for the different types of non-traditional auditors.

STRUCTURAL IMPLEMENTATION OF A ROTATIONAL AUDIT MODEL

During our interviews we noted a limited number of IAFs that applied rotational auditors as a general way of working (100% rotational internal auditors). The majority of IAFs interviewed engaged rotational auditors more on an occasional basis driven by career paths of individuals. Some IAF representatives indicated that a more structural application of a rotation model could be beneficial, even if this would mean 'accepting' a higher turnover rate. To make the rotational model work one should consider the 'inflow' as well as the 'outflow'.

CLOSE RELATIONSHIPS THROUGHOUT THE ORGANIZATION

To select and recruit capable non-traditional auditors to join the IAF, several interviewees indicated that keeping close relationships within the organization is a key factor for success. Future guest auditors, SMEs or rotational auditors can come from audited departments. A better practice iden-

Better practice	Rotational auditor	Guest auditor	SME
Structural implementation of a rotational audit model	▓		
Close relationships throughout the organization	▓	▓	▓
Offer good roles in the business	▓	▓	
Maintain an actual knowledge-expertise matrix	▓	▓	▓
Align recruitment of non-traditional auditors with organizations' practices	▓	▓	▓
Internalize subject matter expertise in the IAF			▓
Evaluate rotational auditors in the same way as auditors	▓		
Define criteria to evaluate guest auditors and SMEs on acase-by-case basis		▓	▓

Table 5

tified is the sharing of IAF vacancies with these departments.

OFFER GOOD ROLES IN THE BUSINESS

Other IAF representatives indicated that it is important to adequately manage the outflow from IAF after the rotational period, in order to attract good candidates. Maintaining good relationships with HR and the business ensures that rotational auditors leave the IAF into roles in line with their career path.

Example: One IAF established an 'intention agreement' with managers of all parts of the organization to provide one or more non-traditional auditors for the rotational audit program.

Example: One IAF representative explained that board members have to commit to placing rotational auditors back into the part of the business where they are responsible for, to ensure an in- and outflow of high-potential candidates.

MAINTAIN AN ACTUAL KNOWLEDGE-EXPERTISE MATRIX

Another better practice identified relates to the establishment of a knowledge-expertise matrix. By this the IAF can clearly communicate what kind of SME areas are required. This instrument is considered very helpful for recruitment and back-up purposes.

ALIGN RECRUITMENT OF NON-TRADITIONAL AUDITORS WITH ORGANIZATIONS' PRACTICES

IAF representatives indicated that it is considered important to have a formalized process in place with the involvement of HR when engaging non-traditional auditors.

INTERNALIZE SUBJECT MATTER EXPERTISE IN THE IAF

Some IAFs we have interviewed had internalized SMEs permanently into the IAF. This better practice might be feasible for larger IAFs only. This holds for both expert knowledge (e.g. about the applicable regulations) and business knowledge (e.g. about the applicable markets for the organization).

EVALUATE ROTATIONAL AUDITORS IN THE SAME WAY AS AUDITORS

Most interviewees stated that they evaluate rotational auditors in the same way as auditors by using common evaluation processes and KPI's. Some IAFs vary based on the role of the non-traditional auditor during the audit, for example if non-traditional auditors are not involved throughout the entire audit.

Example: one fast-moving consumer goods company makes use of rotational auditors in their IAF. It uses common evaluation processes and KPI's for all auditors (auditors and non-traditional auditors, staff and management).

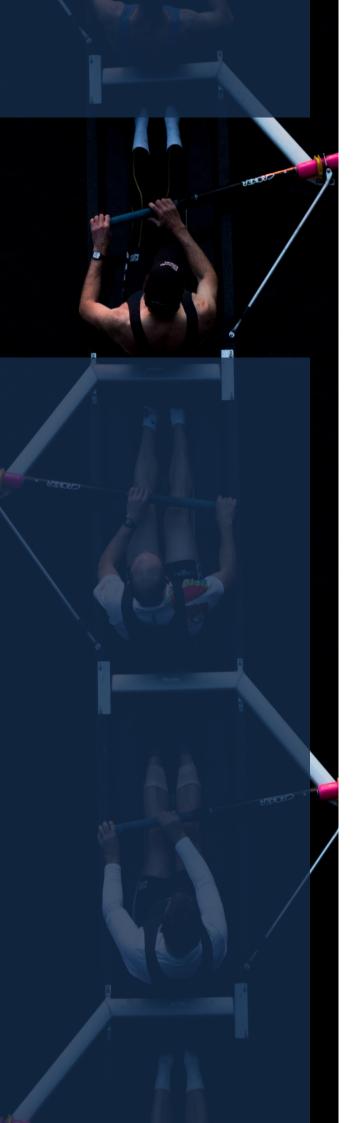## DEFINE CRITERIA TO EVALUATE GUEST AUDITORS AND SMES ON A CASE-BY-CASE BASIS

IAF representatives indicated that transparency about what contribution is expected of the non-traditional auditor should be clarified before the start of the audit. The related evaluation criterion should be defined on a case-by-case basis and evaluated at the end of the audit.

CHAPTER 5
CONCLUSION AND LIMITATIONS

Globally IAFs increasingly include non-traditional auditors in audit teams to increase quality and to be able to quickly adapt to organizational developments. This brings several advantages to the IAF, the non-traditional auditor as well as the organization (see table 2).

In this research better practices around the use of non-traditional auditors in internal audits are provided, measures that can support IAFs in successfully implementing a non-traditional auditor model. The measures are based on academic literature and real-life examples of IAFs successfully working with a non-traditional auditor model.

The measures were presented around three topics: competence and quality, independence and objectivity and selection and reward. Supervision, specific use of non-traditional auditors and classroom training are examples of better practices regarding competence and quality. To ensure independence and objectivity multiple better practices were shared, including openly addressing the topics, clear supervision by explicit adaptation of the IIA's code of ethics. Other measures were identified related to specific types of non-traditional auditors (rotational auditors, guest auditors and subject matter experts). Finally, to optimize selection and reward of non-traditional auditors IAFs use both, formal (aligning recruitment practices with the organizations' practices) and informal (maintaining close relationships with leaders across the organization) methods. Additionally, specific measures can be used for specific kinds of non-traditional auditors.

SCOPE AND LIMITATIONS
Limitation of using interviews

The research is partly based on interviews with representatives of IAFs. The information provided in these interviews was not validated by studying additional documentation such as Internal Audit Charters or Internal Audit Manuals. Further research could add this to validate and enrich the measures included in this article.

While the project team has attempted to ensure a broad applicability of results by selecting a diverse range of IAFs, time and resources constraints limited the team to 17 organizations. A larger sample of organizations could further validate the results and extend.

The IAFs interviewed were all (partially) based within The Netherlands, though multiple of the selected organizations operate abroad. Selecting a different geography might impact results.

The goal of the research was to provide better practices regarding the use of non-traditional auditors and did not intent to extensively research when and why non-traditional auditors are used. This too could be an interesting area for further research.

DEFINITION

The definition of non-traditional auditors used in this study led to discussions with several interviewees and revealed there is no clear consensus between IAFs on how to define non-traditional auditors. The topics of rotational, guest and SME auditors are widely known and in use by internal audit functions, yet often mean different things. While the definitions used in this research attempt to be exhaustive and complete, we noted several examples of non-traditional auditors mentioned during the interviews that challenge the definitions used in this research. Further work could be done to detail/fine-tune the definitions.

APPENDIX 1
LITERATURE

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APPENDIX 2
INTERVIEW QUESTIONS

The following interview protocol was used. We used the model developed by **Christ (et al 2015)** as a basis and developed it based on the literature review.

Descriptive information:
- Organization Size, industry
- IAF Size
- Staffing
- i. # of staff, managers, etc.
- ii. Co-source? Out-source, etc.
- IA plan or budget size
- Types of audits conducted
- Reporting lines

What types of non-traditional auditors does the IAF work with?
- Do you use non-traditional auditors? What kind of?
- Why do you use non-traditional auditors?
  - Infusion of fresh ideas and perspectives?
  - Lack of specific knowledge within IAF?
  - Lack of resources?
  - Increase acceptance of the results?
  - Enhancement of specific internal audit skills and competencies?
  - increase efficiency of the IAF?
  - To create an appreciation of the IAF?
  - Evolve view of internal audit as a potential source of talent for the enterprise?
  - Create ambassador for internal audit after assignment (rotational auditor)
- When do you use non-traditional auditors?
  - During all activities of the engagement (full member of the team)
  - During preparation: defining scope and risks
  - During fieldwork
  - During reporting / communication of results (challenge findings / assist with recommendations
- Who makes the decision to use non-traditional auditors?
- Do auditors start in IA and rotate into the company or can they come into IA after holding an operational position?
- Which employees rotate out (All? Some? Staff only – i.e., not CAE)?
- Who decides who gets hired out of internal audit?
- What is the time frame for non-traditional auditors?
- Is there a special skill set needed for non-traditional auditors?
- Do non-traditional auditors do different work than other (career) internal auditors? (e.g., do they only focus on consulting?

Benefits & costs (risks) of systematic rotation:

- What are the benefits of non-traditional auditors?
  - For the IA department/organization/rotating auditor?
- What are the risks of non-traditional auditors?
  - For the IA department/organization/rotating auditor?
  - Lack of audit knowledge and audit experience
  - Too eager (scoping challenge)?
  - Continuity (follow-up)?
  - Budget
  - Quality of working papers / audit documentation
- Financial reporting quality:
  - Does internal audit impact FRQ? (Why or why not?)
  - How (& why) does systematic rotation impact this effect on FRQ?
- Competence:
  - How does non-traditional auditors impact the competence/expertise of internal auditors?
  - How does non-traditional auditors impact the attraction of talent to internal audit?
  - How does non-traditional auditors impact the development of internal auditors with internal auditing skill sets?
  - Do you think the external auditor would be more (or less) likely to rely on the IAF because it uses (does not use) non-traditional auditors?
- Objectivity & independence:
  - How does non-traditional auditors impact objectivity of internal auditors?
  - How does non-traditional auditors impact independence of internal auditors?
- Do any of the above effects differ based on which positions (staff or CAE) are systematically rotated into management positions?

Other practices

- Are there any mechanisms in place to enhance the competence/objectivity of internal auditors who are (to be) non-traditional auditors? (For example, governance mechanisms.)
  - Recruitment
  - Training / external certification in their area of expertise
  - Monitoring on the job
  - Evaluation of work performed
  - Have them read and sign Code of Ethics
- Training?
  - Training on the job without a specific training course?
  - Short introduction training (1-2 days)
  - Extensive training course (>2 days)
- What practices could be put in place (either in their organization or in another organization) to minimize these potential negative effects?

- Evaluation: How do you evaluate non-traditional auditors? Different KPI's than auditors? Can you give examples of KPI's?
- How do you ensure that IAF staff learns from non-traditional auditors (gets new insights/specific knowledge)?

Concluding

- What are the advantages of making use of non-traditional auditors?
- What are the disadvantages of making use of non-traditional auditors?
- To what extent are you satisfied with the use of non-traditional auditors? (0-100%)
- How does your audit committee provide oversight and monitoring over internal auditing function?
- How does management impact the work and results of the IAF?
- Do you have any additional thoughts on the practice of non-traditional auditors into operational positions you would like to share?