

Informal Communication: A Path to Success for Internal Auditors

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SUMMARY: The newly issued 2024 Global Internal Audit Standards recognize the need for informal communication for the first time, highlighting the vital role of informal communication in facilitating effective information flow and building relationships between internal auditors and their stakeholders. Frequent informal communication can significantly enhance the benefits of formal reporting by helping internal auditors gain deeper knowledge of the organizational culture and dynamics, nurture mutual understanding of internal audit work, and take a comprehensive perspective on risk. Drawing upon data gathered through interviews, surveys, and audit committee charters, we find that informal communication between internal auditors and the audit committee plays a pivotal role in obtaining audit committee support and building strong relationships. However, there is a significant gap between current practice and the new guidance for informal communication. We discuss implications of the new standards and offer suggestions to improve informal communication.

Keywords: informal communication; internal audit; audit committees; Global Internal Audit Standards.

I. INTRODUCTION

The Institute of Internal Auditors (IIA) is widely recognized as the primary source for internal audit (IA) policies, implementation guidance, and certification of IA professionals. The IIA issued global standards in October 2016 that served as the framework for IA activities in

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both public and private sectors ([The Institute of Internal Auditors \(IIA\) 2016](#)). Communication skills are considered one of the fundamental skills for internal auditors ([Buenger and Zamir 1991](#); [Koch and Denner 2022](#); [Messmer 2001](#); [Stein and Holcombe 1994](#)). Although the 2016 standards included guidance for formal communication of specific matters to the board or other stakeholders, they do not mention informal communication. Consistent with this focus on formality, internal auditors in many organizations concentrate on communicating with the board, management, and other stakeholders through formal channels, such as regularly scheduled meetings.

In January 2024, the IIA issued the new Global Internal Audit Standards, which contain significant revisions to the 2016 standards, highlighting the distinction between formal and informal communications and emphasizing the critical role of informal communication in achieving IA objectives ([The Institute of Internal Auditors \(IIA\) 2024](#)). For instance, Standard 8.1 focuses on audit committee (AC) interaction and specifies that the board and chief audit executives (CAEs) should engage in informal discussions outside of formally scheduled meetings, considering the timeliness and significance of ongoing issues. Standard 11.1 provides the CAE is responsible for fostering both formal and informal communication channels with stakeholders. Standard 13.1 instructs internal auditors to adopt effective communication mechanisms when engaging with clients, including both formal written documents and informal discussions. As emphasized in the new standard, internal auditors can gain insights into business operations, risks, and opportunities for collaboration through both formal and informal interactions.

In this study, we examine how internal auditors utilize formal and/or informal communication channels when interacting with ACs. We employ multiple methods, analyzing data collected from interviews, surveys, and AC charters.¹ Our findings suggest that informal communication can help both ACs and internal auditors fulfill their responsibilities, but that there exists a gap between current practice and the IIA guidance on informal communication. In [Section VI](#), we propose steps that internal auditors can take to meet the new standard and actively maintain informal communication channels. We caution that, in pursuing the benefits of informal communication with various stakeholders, internal auditors should take care to preserve their objectivity by continuously disclosing potential conflicts of interest, maintaining consistency in the audit approach, and adhering to professional and ethical standards. This study contributes to the literature by evaluating formal and informal communication between internal auditors and ACs, highlighting areas where practice falls short of the new guidance, and responding to the call for research to improve the understanding of internal auditors' day-to-day work and bridge the gap between academia and practice ([DeFond and Zhang 2014](#); [Kotb, Elbardan, and Halabi 2020](#); [Roussy and Perron 2018](#)).

II. INFORMAL COMMUNICATION AND IA

Informal communication is a relatively new area in IA research. In this section, we highlight a few studies that have examined its importance. [Koch and Denner \(2022\)](#) study the effect of informal communication on employee productivity and job satisfaction in a German company, reporting that informal communication helps employees stay connected and increases their job satisfaction. [Turley and Zaman \(2007\)](#) conduct a case study in the U.K., investigating interactions between ACs and groups they oversee, concluding that the greatest impact of ACs occurs outside of formal channels. [Zaman and Sarens \(2013\)](#) report evidence from a survey of CAEs in the U.K. that ACs and internal auditors do engage in informal interactions, especially when encouraged by more

¹ The survey and interview of this study have been certified as exempt human subject research by the Institutional Review Board of a researcher's university.

experienced AC chairs. Focusing on U.S. public companies and exploiting a requirement that these companies disclose a charter describing AC duties, Jaggi (2023) finds that financial reporting quality increases when ACs report relatively greater interaction with internal auditors.

This literature provides an incomplete picture of communication, as it relies heavily on reports from non-U.S. companies and, in the case of Jaggi (2023), on data gleaned from AC charters dating prior to 2006. We contribute by providing insights and direct evidence, both qualitative and quantitative, on the different communications that currently occur between ACs and internal auditors in U.S. companies. We highlight that current practice falls short of the new IIA standard and provide actionable guidance for closing this gap.

III. INSIGHTS FROM INTERVIEWS

To motivate our study and to gain deeper insights into the interactions between ACs and internal auditors, we first conducted interviews with AC chairs and CAEs.² Table 1, Panel A presents the demographics of the participants who shared personal accounts of their informal interactions with ACs or CAEs, emphasizing the importance of timely and open informal communication for effective communication.

TABLE 1

Interview Participant and Survey Respondent Demographics

Panel A: Interview Participant Demographics

Identifier	Title	Years As AC Member or IA Head	Companies	IA Size
AC1	AC Chair	18	7 public, 2 private	Varies
AC2	AC Chair	19	5 public, 7 private	Varies
CAE1	IA Director	4	Public (real estate investment trust)	15
CAE2	Senior Finance Manager- IA	7	Private (engineering services)	5

Panel B: Survey Respondent Demographics, n = 35

Characteristic	Mean	Median	Std. Dev.	Low	High
Employed by public company	0.40	0.00	0.49	0.00	1.00
CAE	0.26	0.00	0.44	0.00	1.00
Certified Public Accountant	0.31	0.00	0.46	0.00	1.00
Certified Internal Auditor	0.57	1.00	0.49	0.00	1.00
Other certification	0.51	1.00	0.50	0.00	1.00
Years of experience in IA	12.29	9.00	10.59	2.00	45.00
Size of IA (number of employees)	14.14	8.00	14.25	1.00	50.00

This table reports the demographics of the AC chairs, CAEs, and internal auditors who participated in this study.

² Jaggi (2023) uses the same interview dataset to motivate and develop hypotheses. Because the collected interview data are rich in context and cover several important aspects of IA and AC interactions, the current paper utilizes the interview data that focus on the importance of informal communication. The quotations included here have not been used in Jaggi (2023) or other published studies.

The AC chairs and CAEs who participated in our interviews recognize that ACs can be a valuable resource to IA, offering support and addressing its various needs. Our interviewees emphasized this collaborative perspective, as represented by this quote:

Anytime something unexpected comes up, they [the CAE] call. If they feel like they need more resources, if there is unexpected turnover, they will give me a call and tell me they are going to ask the CFO or CEO for something. And then I would support them in that. They can call me day or night and they know I will respond. I have to be their resource...I influence outcomes through coaching and being a resource. This is part of the role [of the audit committee chair]—you need to be a coach and a resource for the internal auditor, or it is a really hard job for them. (Audit Committee Chair 1)

Although working relationships can be established through formal meetings, they can be strengthened through frequent informal interactions. The AC chairs we interviewed emphasized the importance of fostering supportive relationships with internal auditors:

I spend time with [the CAE]. When we have our calls, we talk about their job, their team, how they are feeling. We have a lot of conversations. Is there anything that I can do to help your team? I try to stay close with them. How their families are doing. It is a relationship. I want to make sure they are doing well. And that builds over time. We are all on the same team, and it is up to me [the audit committee chair] to make sure that they realize that I have their best interest at heart. (Audit Committee Chair 2)

The AC chairs we interviewed emphasized their responsibility to initiate and promote open communication with their CAEs. CAEs also acknowledged the importance of open communication, recognizing that ACs may expect it:

It is up to the audit chair to make sure that internal auditors feel like they can share openly. Absolutely. I try to make sure that they understand how important their role is to me and to how the audit committee functions. I do fireside chats with the CAE. And we chat about things that I'm seeing. And not only the CAE. It is important that all internal auditors know how important their work is. (Audit Committee Chair 2)

We set the expectation that the internal auditor can come to the board with anything. Setting the expectation initially [that the CAE can discuss anything with the AC] and then being available for it when it happens is really all it takes. (CAE 2)

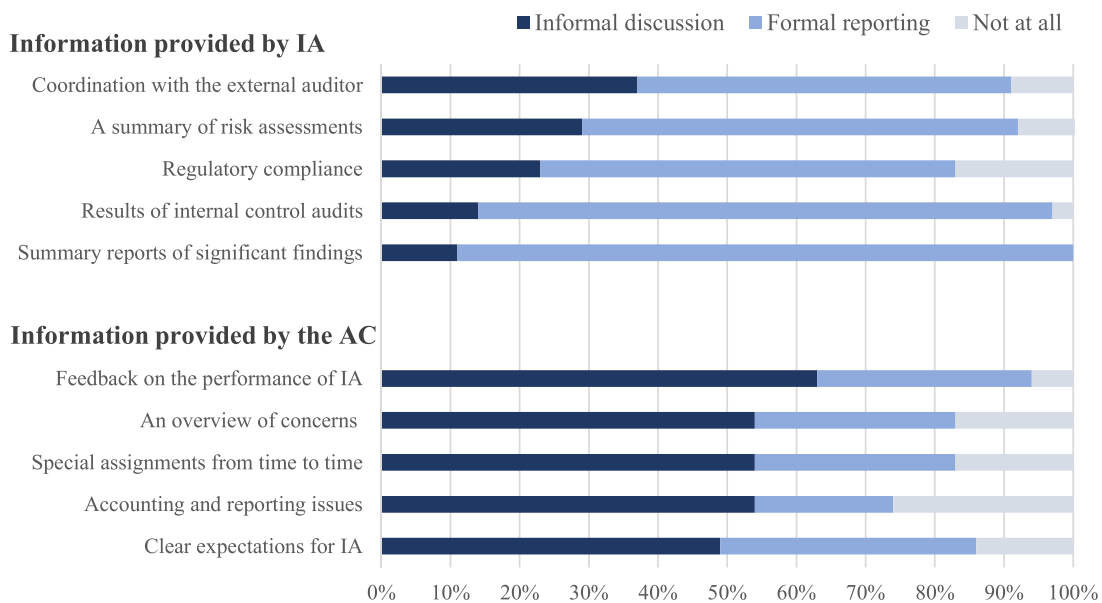
The ideas expressed in these interview excerpts highlight the critical role of frequent and timely informal communication. Building strong relationships is an ongoing task and investment for both internal auditors and ACs. Both parties must dedicate time and effort to building trust and nurturing relationships through consistent formal and informal conversations. Other recent findings echo these points. Two recent surveys indicate that ACs expect effective communication from both internal and external auditors. The 2023 Global Audit Committee Survey conducted by KPMG reports that 31 percent of ACs globally and 15 percent in the U.S. believe IA can add more value to the AC's work through better reporting and communication (KPMG 2023). A 2023 PCAOB survey addresses AC preferences for communication with external auditors. Committee chairs consider inconsistent and last-minute communication problematic. In contrast, they appreciate (1) proactive communication, (2) easy-to-digest information, (3) updates and trends in auditing and industry, and (4) educational materials and resources (PCAOB 2023). Building on these studies and our own interviews, we survey internal auditors to further understand how they interact formally and informally with ACs.

IV. RESULTS FROM SURVEYS

We offered our survey to internal auditors who participated in the Sawyer’s Educators’ Symposium at the International Conference of the IIA, held in Anaheim, CA, in 2019, or who attended a joint meeting of IIA chapters in Washington, Oregon, and Alaska in 2021. In total, we collected 35 usable responses, including nine CAE responses. On average, survey respondents possessed 12 years of experience in internal auditing, and their IA functions comprised 14 internal auditors. Of the 35 total survey responses, 40 percent represented internal auditors working for public companies. Table 1, Panel B presents the demographics of the respondents.

In the survey, internal auditors responded to questions related to communication between IA and ACs.³ The results indicate that internal auditors predominantly rely on formal reporting when sharing information with ACs. As Figure 1 shows, internal auditors provide the AC formal updates on summaries of findings (89 percent) and results of internal control audits (83 percent). They are slightly more inclined to engage in informal discussions with ACs when sharing nonaudit-related information, such as reports related to coordination with external auditors (37 percent), summaries of risk assessments (29 percent), and updates on regulatory compliance (23 percent). On the flip side, for ACs sharing information with IA, the survey results suggest that ACs often utilize informal discussions. Our survey results indicate that, during informal discussions with internal auditors, ACs provide feedback on IA performance (63 percent) and assign special tasks to IA (54 percent).

FIGURE 1
Survey Responses for the Questions “Which of the Following Is Provided by IA to the AC at Your Company?” and “Which of the Following Is Provided by the AC to IA at Your Company?”



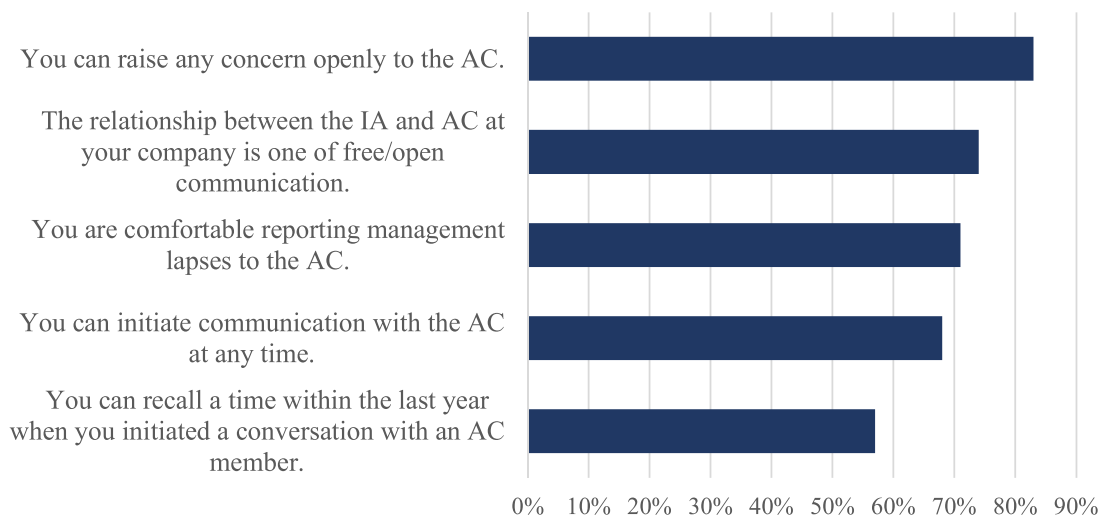
³ Importantly, the majority of respondents to our survey are non-CAE internal auditors. They have a general understanding of how their AC interacts with IA but may have limited direct interaction with AC members. The survey results must be interpreted in this light. Also, we compare in untabulated analysis the responses of internal auditors working for public companies (40 percent of our sample) versus non-public companies (60 percent). The overall results between these two groups do not differ significantly.

The committee also discusses concerns (54 percent) and accounting and reporting issues (54 percent) with internal auditors informally at times.

Figure 2 illustrates the existing communication level between the AC and internal auditors. The results indicate that 83 percent of respondents “Strongly Agree” or “Agree” with the prompt, “You can raise any concern openly to the AC,” whereas 71 percent stated being comfortable reporting management lapses to the AC. Put another way, 17 percent of respondents are reluctant to raise concerns openly to the AC and 29 percent are not comfortable reporting management lapses to the AC. Internal auditors were even less inclined to initiate conversations with AC members (57 percent), even though most respondents acknowledged that their relationship with the AC is built on open and free communication (74 percent). Overall, respondents assert that the AC’s support can help internal auditors better fulfill their duties (94 percent) and increase IA effectiveness (88 percent). The complete survey results are presented in Table 2.

In summary, our survey results provide insights into the status of interactions between internal auditors and ACs. Concerning informal communication, we identify a significant gap between current practice and the guidance in the new IIA standards. Although more than 90 percent of respondents believe that ACs and internal auditors can both function at higher levels when information between the groups flows freely, only 74 percent enjoy an environment of open communication. Although some internal auditors appear to have leveraged informal interactions in their communications, many will yet benefit from actively and informally nurturing strong relationships with their stakeholders, especially AC members. Internal auditors should strive to establish consistent and frequent discussions with ACs in informal settings and to build open and free communication channels. Results from a recent PwC survey of board members and executives corroborate these ideas, indicating that internal auditors need to sharpen their skills in adopting a collaborative

FIGURE 2
Survey Responses for the Question “Do You Agree with the Following Statements Regarding the Communication between AC and IA?”



Survey participants responded to the five prompts in this figure using a five-point Likert scale with endpoints of “Strongly Agree” and “Strongly Disagree.” The figure shows the percentage of participants who responded with “Strongly Agree” or “Agree” for each question.

TABLE 2
Results of the Survey of Internal Auditors (n = 35)

	Percent of Respondents		Not at All
	Formal Reporting	Informal Discussion	
Panel A: Information Provided by IA to the AC			
<i>Which of the Following Is Provided by IA to the AC at Your Company?</i>			
Summary reports of significant findings	89%	11%	0%
Responses of management to IA findings	80%	17%	3%
Results of internal control audits	83%	14%	3%
A summary of risk assessments	63%	29%	8%
Updates on regulatory compliance	60%	23%	17%
Reports on coordination with the external auditor	54%	37%	9%
Evaluation of the qualifications and performance of IA employees	57%	20%	23%
Panel B: Information Provided by the AC to IA			
<i>Which of the Following Is Provided by the AC to IA at Your Company?</i>			
Clear expectations for IA	37%	49%	14%
Strategic goals and plans for IA	31%	46%	23%
Feedback on the performance of IA	31%	63%	6%
An overview of strategic, operational, or financial concerns in the company	29%	54%	17%
An overview of the primary risks in the organization from the perspective of the AC	31%	46%	23%
Special assignments from time to time	29%	54%	17%
Questions the AC is dealing with related to accounting and reporting	20%	54%	26%
A summary of findings from the independent auditor	40%	37%	23%

(continued on next page)

TABLE 2 (continued)

Panel C: Frequency of Interactions between the AC and IA

At Your Company, How Many Times in a Quarter Does the IA Communicate with the AC via the Following Channels?

	Percent of Respondents				
	None	One or Two	Three or Four	Five or Six	Seven or More
Face-to-face meetings <u>with</u> management present	3%	77%	11%	9%	0%
Face-to-face meetings <u>without</u> management present	20%	57%	12%	12%	0%
Email communications	20%	23%	31%	23%	3%
Telephone conversations	29%	31%	20%	14%	6%

Panel D: AC Support of IA

Do You Agree with the Following Statements Regarding the Support Your AC Provides Your IA?

	Percent of Respondents					
	Average Likert Score	Strongly Agree (+2)	Agree (+1)	Neutral (0)	Disagree (-1)	Strongly Disagree (-2)
The AC asks IA about any difficulties or limitations in carrying out the audit plan.	0.97	37%	40%	11%	6%	6%
You feel more comfortable raising important issues to the AC than to management.	0.03	11%	26%	32%	17%	14%
Management takes IA recommendations seriously.	1.23	43%	43%	11%	0%	3%
You have seen the AC hold management accountable for implementing IA recommendations.	0.63	26%	31%	29%	9%	6%
Your IA function is more effective because of AC support.	1.31	54%	34%	6%	0%	6%

(continued on next page)

TABLE 2 (continued)

Panel E: The Openness of Communication		Percent of Respondents				
		Average Likert Score	Strongly Agree (+2)	Agree (+1)	Neutral (0)	Disagree (-1)
Do You Agree with the Following Statements Regarding the Communication between AC and IA?						
You are comfortable reporting management lapses to the AC.		1.03	40%	31%	23%	3%
You can raise any concern openly to the AC.		1.17	43%	40%	11%	3%
You can initiate communication with the AC at any time.		0.94	34%	34%	26%	3%
You can recall a time within the last year when you initiated a conversation with an AC member.		0.57	34%	23%	23%	14%
The relationship between IA and the AC at your company is one of free/open communication.		1.09	43%	31%	20%	3%
Panel F: Perceived Benefits of Interaction between the AC and IA						
Do You Agree with the Following Statements Regarding the Benefits of AC-IA Interaction?						
The AC can better fulfill its duties.		1.46	60%	31%	6%	3%
IA can better fulfill its duties.		1.46	57%	37%	3%	3%
Financial reports are less likely to reflect errors.		0.34	17%	20%	49%	6%
Financial reports are less likely to reflect manipulation.		0.43	20%	23%	43%	6%
Internal control procedures are more likely to function effectively.		0.94	29%	46%	17%	0%
Recommendations made by IA are more likely to be implemented.		1.20	49%	31%	14%	3%

This table reports the results of a survey of 11 internal auditors in attendance at the Sawyer's Educators' Symposium at the International Conference of the IIA held in Anaheim, CA in July 2019 and 24 internal auditors at a combined meeting of IIA chapters in Washington, Oregon, and Alaska in October 2021. On average, respondents have 12 years of internal auditing experience and work in functions consisting of 14 internal auditors. Fourteen respondents (40 percent) work for publicly traded companies. Nine respondents (26 percent) are CAEs.

approach (22 percent), employing effective communication skills (20 percent), and handling negotiation and dispute resolution (13 percent) during IA activities. Reflecting on the results, PwC encourages internal auditors to “shake up the communication style” and initiate more agile conversations with their stakeholders (PwC 2023).

V. ANALYSIS OF AC CHARTERS

The SEC requires public companies in the U.S. to post their AC charter on their website. These charters delineate the committee’s composition and responsibilities and make various references to IA, describing ways in which the groups interact. To complement our firsthand data from interviews and surveys, we randomly selected 100 charters obtained from corporate websites in 2023 to analyze.

Through a detailed examination of these charters, we learn that ACs engage with internal auditors in numerous ways. We present a breakdown of the different types of interactions and their frequencies in Figure 3 and Table 3. These AC charters suggest that most ACs consider periodic group meetings (72 percent) and private meetings (67 percent) with IA to be important. Most of the IA references in the charters relate to formal reporting lines between the committee and IA, including discussing IA findings (49 percent), internal controls (39 percent), and management responses to findings (36 percent), to name a few. However, some other IA interactions that are likely to occur in informal communications are not consistently emphasized in the charters; for example, only 22 percent of the charters mention the committee’s commitment to maintaining free and open communication with IA, and only 16 percent indicate that internal auditors can bring any item they wish to the committee for discussion.

Although the AC charters indicate some emphasis on encouraging open and informal communication, there appears to be significant room for ACs to improve their interactions with IA.

FIGURE 3

Brief Descriptions of Certain Activities ACs Undertake Regarding IA and the Frequency with Which They Are Described in AC Charters (n = 100)

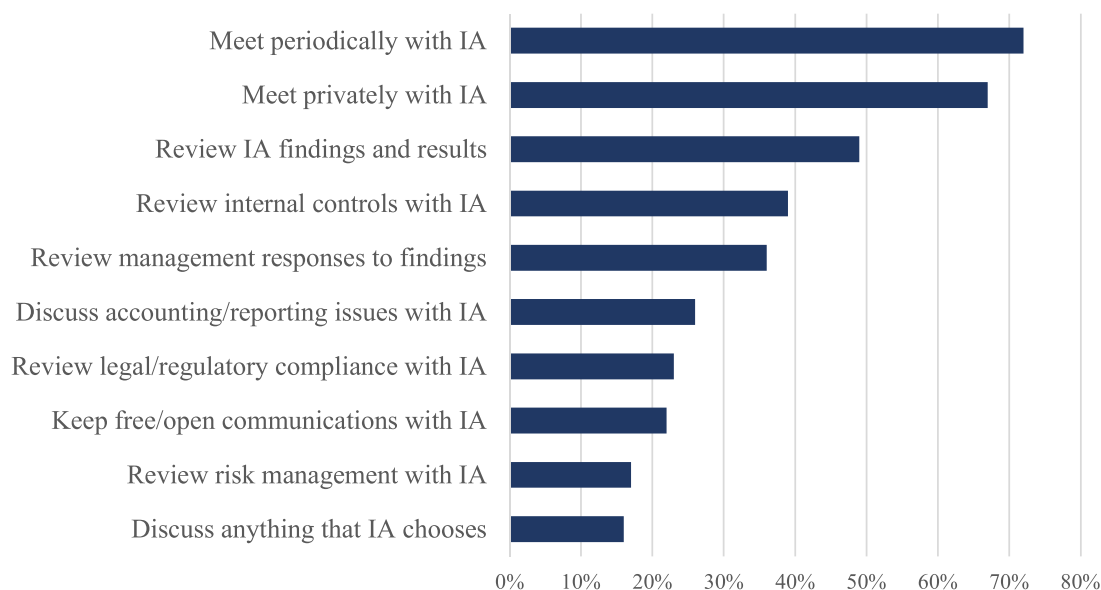


TABLE 3
Brief Descriptions of Activities ACs Undertake Regarding IA and the Frequency with Which They Are Described in AC Charters (n = 100)

Consult	Communicate	Oversight
1. Review IA findings and results	49%	72%
2. Review internal controls with IA	39%	67%
3. Review management responses to findings	36%	22%
4. Discuss accounting/reporting issues with IA	26%	10%
5. Review legal/regulatory compliance with IA	23%	4%
6. Review risk management with IA	17%	6%
7. Discuss anything that IA chooses	16%	
8. Review quarterly/annual financials with IA	11%	
9. Discuss fraud with IA	10%	
10. Review ethics and code of conduct with IA	9%	
11. Review disagreements between IA and others	9%	
12. Discuss alternative GAAP methods with IA	7%	
13. Review MD&A with IA	7%	
14. Review off-balance sheet structures with IA	6%	
15. IA scope includes data security	4%	
16. Review related party transactions with IA	3%	
17. Assign and review IA special investigations	3%	
18. Review management judgments with IA	3%	
19. Review manager perks and expenses with IA	2%	
20. Discuss quality of accounting staff with IA	1%	
21. Discuss non-GAAP disclosures with IA	1%	
		33. Review planned IA scope
		34. Review IA budget
		35. Review IA staffing and qualifications
		36. Review the IA charter
		37. Ensure no unjustified restrictions on IA
		38. Review IA coordination w/ ext. audit
		External Audit
		39. Review performance/independence of auditor with IA
		40. Review external audit plan with IA
		41. Review external audit findings with IA

This table presents data resulting from our review of 100 randomly selected AC charters gathered from company websites in 2023. For each of these charters, we manually read each reference to IA and determined its classification into one of these categories.

ACs should continue to utilize IA as a valuable resource for information in conducting their oversight responsibilities. The new IIA standards emphasize the importance of informal communication, stating that ACs should maintain open communications with CAEs, and that CAEs should work to develop a trust and relationship with AC members (IIA Standards 8.1 and 11.1 2024). Our AC charter analysis indicates that current practice is not aligned with these standards.

VI. IMPLICATIONS

Taken together, our findings identify a significant gap between current practice and the guidance in the IIA standards concerning informal communications. Our survey of internal auditors indicates a strong belief among respondents that there is a mutual benefit for ACs (91 percent) and internal auditors (94 percent) in promoting free and open communication. However, only 68 percent of internal auditors we surveyed express confidence in initiating conversations with ACs at any time. The AC charters further indicate that only 22 percent of ACs formally state their dedication to free and open communication with IA, and only 16 percent emphasize that IA can freely bring *any* discussion item to the committee. To narrow this gap and meet the new standards on informal communication, internal auditors and ACs have significant work to do.

For internal auditors, informal communication is not only a new standard but also a tool to help them better fulfill their responsibilities. Internal auditors should be present at various company occasions where they can rub shoulders and interact informally with AC members and management. As one CAE told us, “A lot of what I learn about the company comes from wandering the halls and bumping into other people in the management ranks—just having a conversation about things that are going on and what the company is doing or hoping to do.” We offer the following suggestions to internal auditors:

- Establish a mutual understanding that communication outside of formal meetings is vital.
- Initiate timely conversations on unexpected events and regulatory changes that impact the organization and IA work and resources.
- Provide early informal updates on important information related to risk assessment, audit plans, work progress, findings, recommendations, and other activities.
- Report challenges encountered during audit activities and solicit support when needed.
- Attend organizational meetings and events to create opportunities for informal interactions.
- Make in-person work a priority to allow for spontaneous informal interactions.

AC members should publicly commit to promoting free and open communication with internal auditors in their AC charter. AC chairs especially should make a point to develop strong relationships with internal auditors by (1) providing consistent and frequent opportunities to discuss matters freely in private conversations, (2) modeling and encouraging candid communication, and (3) being available in-person or by phone to internal auditors outside of scheduled meetings.

When building strong relationships with stakeholders who are or might be future auditees of IA, the objectivity or perceived objectivity of internal auditors can become jeopardized (Ahmad and Taylor 2009; Goodwin and Yeo 2001; Stewart and Subramaniam 2010).⁴ To mitigate this significant risk, internal auditors should (1) disclose potential conflicts of interest and refrain from auditing

⁴ Because AC members are by regulation independent of management, the threat to IA objectivity is significantly less apparent when internal auditors build relationships with AC members as compared with other stakeholders who may be or become auditees. Nonetheless, although building a strong relationship with the AC can be beneficial, internal auditors should seek balance and neutrality in making objective assessments of risks, processes, and controls within the organization, without succumbing to pressure to simply meet the AC’s preferences and without impairing the perceived independence of the AC.

areas where personal relationships might compromise their objectivity, (2) apply audit procedures consistently and treat all stakeholders equally without showing favoritism, (3) set expectations with stakeholders on the boundaries between personal and professional relationships, and (4) participate in regular training and adhere to professional and ethical standards. When engaging stakeholders informally, internal auditors should adhere to established guidance for handling confidential information, documenting significant issues discussed, and preserving a record for follow-up if needed.

This study focuses on the AC as one important stakeholder group. Some questions regarding IA and AC interactions merit further research. For example, what are the reasons that some internal auditors do not feel comfortable initiating conversations with AC members? Overall, how do these ideas bear on the effectiveness of the IA? We encourage future research to further explore the antecedents and implications of interactions between internal auditors and various stakeholders.

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