

Factors influencing the effectiveness of internal audit on organizational performance

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Abstract— *The purpose of this study is to investigate the factors influencing internal auditing and its relationship with organizational performance. Multiple regressions were utilized to evaluate the scale of the influence of the four independent variables identified in the conceptual framework on organizational performance. The sample of this research was taken by random sampling method. The data were obtained by questionnaire. All variables were measured by using 5 point Likert scale. The result showed that there is a significant relationship between competence of Internal Audit department, size of Internal Audit department, management support for internal audit Independence of internal audit and organizational performance. The limitation of this study is very small number of populations; therefore the findings will be difficult to be generalized to examine factors influencing the internal audit effectiveness. Future research should consider larger number of the population also including more internal auditing factors to measure the organizational performance.*

Keywords— *Internal audit, organizational performance, effectiveness, Kurdistan.*

I. INTRODUCTION

Organizations Internal auditors assume the part of undertaking an autonomous examinations and giving affirmation on different activities of foundations went for improving hierarchical execution consistently. This empowers an organization to meet its operational destinations through well thoroughly considered and devoted ways to deal with assess and enhance how best to oversee chance, foundation successful controls and improve administration. The wide perspective of internal audit places it all the more midway as a vital component of open consumption administration that likewise incorporates administration controls and data correspondence forms (Li, et al., 2018). Internal evaluators end up key by advising people in general division because of rule operator relationship that exists between the official and the general population (Cai & Jun, 2018). Internal auditor help in

protecting organization assets and are relied upon to give a persistent record of how the assets have been utilized and empower constant evaluation on whether the criticism meets open goals and desires and whether these are all around adjusted to decrease the dangers intrinsic in the central operator relationship (Testa, et al., 2018).

As internal evaluating has developed in significance inside the more extensive condition of administration and control, issues regarding how viably it plays out this part have risen with more noteworthy conspicuousness than previously (Sunyoto, et al., 2018). While there have been prominent situations where internal audit has been seen to have been at any rate incompletely fruitful – as WorldCom – the current worldwide monetary emergency has prompted addressing of how effective internal audit is, both in its more customary part of checking consistence with inside control and budgetary fidelity and its later, and to a degree, self-announced part as a necessary piece of the hazard administration culture inside expansive financial elements, regardless of whether in the private or open area. As contrasted and the consideration coordinated toward outside audit, investigations of the viability of internal audit have been generally very few (Chen, et al., 2017). Along these lines, the nearness of inside controls for distinguishing, adjusting, assessing and controlling the means, from one perspective, the lawful necessities of the monetary units on the other, which must be additionally appropriately watched, is fundamental. In this way, an internal control framework must be set up to distinguish and control the degree to which such lawful necessities are watched. Internal evaluating is a free appraisal of the monetary unit that is made by its administration to analyze the inside control framework and reports the sufficiency of the internal control framework as far as propriety, financial matters, viability and the fundamental effectiveness in utilizing assets, tests, evaluations, and so forth. Getting beyond any doubt that the utilization of open assets has been spent appropriately and monetarily proficient, successful, and in light of a legitimate concern for society, has a fundamental part. In rundown, internal auditing is

considered as a vital piece of a compelling administration in every single financial unit and it is vital as per examining directions and thinking about the boundless necessities of responsibility in the utilization of assets, particularly open assets, it isn't conceivable to give reasonable defense to the absence of internal auditing, even in little establishments. The presence of internal auditing is one of the conditions for the productive activity of monetary organizations. There are numerous chiefs who endeavor to depend on the execution of internal auditor to enhance their execution and accomplish authoritative objectives (D'Onza & Sarens, 2018). Internal open audit has a unique influence in guaranteeing the usefulness of the administrative responsibility system. With regards to law, the general goal of internal open audit is to upgrade the nature of open substances' administration, through a free evaluation of control forms, chance administration and administration. In this regard, the internal audit should be directed in connection to all exercises inside an open element and there is a legitimate necessity that more than ten exercises, areas or frameworks, for example, exercises having a budgetary effect, installments, patrimony administration, bookkeeping frameworks, administration frameworks and data frameworks and so on be evaluated at any rate once like clockwork, yet it isn't constrained to that (Lenz, et al., 2017). The point of internal examining is to enhance authoritative productivity and effectiveness through valuable feedback (Wu, et al., 2017). Mihret & Grant, (2017), affirms that the estimation of internal audit had been influenced by the discernment that internal auditing just evaluates bookkeeping capacities, is past and present agent opposite on proactive and in this manner does not bigly affect hierarchical execution. Shamki & Alhajri, (2017), characterized internal audit viability "as the degree (counting quality) to which built up destinations are accomplished". Internal audit viability implies the degree to which an internal audit office meets its motivations (Mihret and Yismaw, 2007). Internal audit work assumes a critical part in the authoritative procedure, and consequently it isn't just required to perform common affirmation exercises, yet in addition to fill in as a key accomplice of the organization and enhance its exercises towards enhancing hierarchical procedures and guaranteeing their effectiveness and effectiveness. Organizations with powerful and proficient internal audit work can identify misrepresentation more than those that have not such a capacity inside their organizations (Desmedt, et al., 2017). Viable internal audit capacity could be a noteworthy resource for enhancing open

trust in money related announcing and corporate administration.

In the course of recent years, Enterprise Risk Management has turned into a critical approach in dealing with a wide exhibit of dangers in a coordinated, venture wide design. It is realized that the more prominent the degree of ERM execution, the more endeavors might be devoted to the IA (Abdolmohammadi, et al., 2017). All the more as of late, Laura, Jenny and Nava inspected the connection between internal evaluators' inclusion in ERM and the impression of their readiness to answer to the audit board of trustees. Be that as it may, the utilization of ERM and its correct part in the execution of IA certainly justify more consideration. Past research demonstrates that data innovation assumes a critical part in catching and assessing bookkeeping data (Islam, et al., 2017). Since the Enterprise Resource Planning framework and examining programming were presented, they have quickly enhanced the nature of bookkeeping and budgetary procedures, changing evaluating techniques, and enhancing coordination productivity and also the mix of different utilitarian regions.

II. THEORETICAL FRAMEWORK

Internal audit productivity assessment standards it is essential to examine the idea of internal audit (Putri, et al., 2017). Without a doubt, the substantial measure of definitions that is given by numerous scientists portrays the considerable significance of internal auditing. All the more particularly, the Institute of Internal Auditors, (Tomic, et al., 2017), characterized internal auditing as "an autonomous examination work, set up inside an organization to analyze and assess its exercises as a support of the organization". By estimating and assessing the effectiveness of hierarchical controls, inside examining, itself, turns into a critical administrative control gadget, which is specifically connected to the authoritative structure and the general standards of the business (Ferramosca, et al., 2017). In a similar period, the Committee of Sponsoring Organization's show created by the American Institute of Certified Public Accountants, the American Accounting Organization, the Financial Executives Institute, the Institute of Internal Auditors, and the Institute of Management Accountants has been embraced as the for the most part acknowledged structure for internal control and is generally perceived as the complete standard to evaluate the viability of inside control framework (Kabuye, et al., 2017). In this specific situation, the COSO demonstrate characterizes inside control as takes after: "Internal control is a procedure, affected by a substance's top managerial staff,

administration and other work force intended to give sensible confirmation of the accomplishment of destinations in the accompanying classifications: viability and effectiveness of tasks, unwavering quality of budgetary announcing and consistence with pertinent laws and directions" (Seol, et al.,2017). Likewise, the U.S. Government Accountability Office noticed that internal auditing is "a vital part of an organization's administration that gives sensible confirmation that the accompanying targets are being accomplished: effectiveness and proficiency of activities, dependability of money related detailing, and consistence with appropriate laws and controls" (Lenz & Hahn, 2015).

Internal audit possesses a novel position in the internal affirmation administrations given by people in general and administrative bodies pushed by the present organizations outrages and worldwide money related emergency (Alzeban & Gwilliam, 2014). Issues identified with auditing and monetary prevision and announcing have been unfurled since budgetary markets emergency. To assess organizations, administration needs to assess the two representatives' genuineness and work's proficiency. These obligations have been designated to the built up formal internal audit work (George & Konstantinos, 2015).

Rapidly, internal audit scope has been reached out to incorporate a large portion of monetary exchanges' confirmation, and step by step moved from evaluating for administration to auditing of administration approach (Abbott, et al.,2016). Internal auditing could help organizations in better achieve their targets by getting a deliberate and restrained way to deal with enhance and assess the control, chance administration, and the administration forms effectiveness (Psomas & Antony, 2015). The internal auditors must be described with the most noteworthy expert objectivity levels of imparting aptitudes including gathering and assessing data identified with the analyzed exercises or procedures (D'Onza, et al.,2015). While administration's expanded consideration regarding internal audit suggestions urged internal evaluators to give their earnest attempts, the absence of administration consideration gives the audit a terrible thought in regards to the significance of internal auditing which thusly antagonistically influence the audit attributions (Kafetzopoulos & Gotzamani, 2014). This study endeavored to clarify the internal auditors' part situation which emerges from the desire that internal examiners could help the administration and also autonomously assess it. Numerous respondents allude to that in the current years

the inside review's part has been transformed from a policeman' to an expert.

Inside control is comprehensively ordered projects and procedures initiated by administration of an organization which encourages the organization to accomplish its objectives and destinations and additionally conforming to laws and directions. This definition is additionally elaborated to give full significance to viability, productivity and unwavering quality, as takes after: Effectiveness and proficiency of the tasks of the substance looks to address the based business and corporate goals, accomplishing focuses and securing the assets of the element (Badara & Saidin, 2014). The other class of sensible affirmation that internal controls try to give, identifies with dependable money related revealing which incorporates united budgetary explanation. Thirdly internal controls give appraisal of consistence laws and directions. The diverse part of the above definition bargains distinctive parts of the organization (Baharud, et al., 2014). Concluding from the above definition internal control framework can be believed to work at various levels of adequacy. The above classifications can be estimated based on how every viewpoint has possessed the capacity to accomplish its goals of dependable budgetary explanations, consistence with laws and directions and shielding the assets of the substance.

The internal audit work assumes a novel part in the administration procedure; in reality it is a part that is by and large generally wrangled about. We trust the result of this verbal confrontation will significantly impact the idea of the internal audit movement in the years to come. We additionally trust that specialists can add to this level headed discussion through an extensive variety of research philosophies. Administration frequently calls upon internal auditors to assist give them confirmation that (a) dangers are viably distinguished and observed, (b) hierarchical procedures are successfully controlled, and (c) authoritative procedures are productive or compelling. In this structure, the IAF assumes a novel part. The early internal audit writing, e.g., Sawyer, regularly depicted internal auditors as the "eyes and ears of administration." As we note in different parts, inside control has gone up against a more extensive significance to incorporate the vital pretended by top administration in setting the tone at the best (Elbardan & Ghoneim,2015). In this manner, internal auditors may get themselves clashed in helping administration to survey the viability of their administration forms while answering to the audit advisory group on the tone at the best. The internal audit work has developed in numerous organizations to a

position where it is regularly called upon to take initiative in helping the organization execute, evaluate, or conceptualize hazard administration and control forms inside an organization. As it were, internal audit has assumed a dynamic part in actualizing compelling administration and controls while being solicited to evaluate the effectiveness from administration's control rehearses (Almajali, et al., 2016). What exactly degree would the arrangement of such administrations struggle with the more extensive administration part? Audit Committee — Recent enactment and stock trade recommendations on better corporate administration have raised the part of the audit advisory group to a prevalent part in checking and giving an account of the viability of corporate administration. This has prompted different proposals that the internal audit work report straightforwardly to the audit council, not to senior administration. The suggestion may make strain with the more customary part of internal audit going about as the "eyes and ears" of administration. We trust the idea of that pressure and the effect of such strain on both the idea of the internal audit action and its commitment to the organization ought to be inspected (Abuazza, et al., 2015).

Internal audit quality is described by competency and freedom. The capacity to impart audit reports and different discoveries and proposals in time and in the meantime to

have provoked reaction from leaders is very vital in accomplishing hierarchical execution (Angiola & Bianchi, 2015). In this way, internal audit is a component of very experienced, proficient and expertized staff; sensible size of audit staff; freedom and objectivity in the audit procedure and capacity to impart audit discoveries and suggestions through the general and satisfactory announcing design. Various examinations have tried towards the investigations of internal audit capacities considering the part the capacities are playing in authoritative execution. The need to explore such reaction from both open division organization and would be essential in supporting the change in outlook from customary focal point of Internal Audit Function to recently characterized internal audit work. To successfully center on internal audit work, factors such internal audit fitness, freedom, size, opportuneness and detailing line in internal audits are of key significance (Alzeban & Sawan, 2015).

The administration of an organization assumes a basic part in improving the effectiveness of the internal audit work. The initiative of the organization impacts the effectiveness of the internal audit through affecting on its freedom. The autonomy of the internal examiner is inspected inside the setting of opportunity from conditions that undermine objectivity and appearance of objectivity (Ege,2014).

Conceptual framework

Internal Audit effectiveness

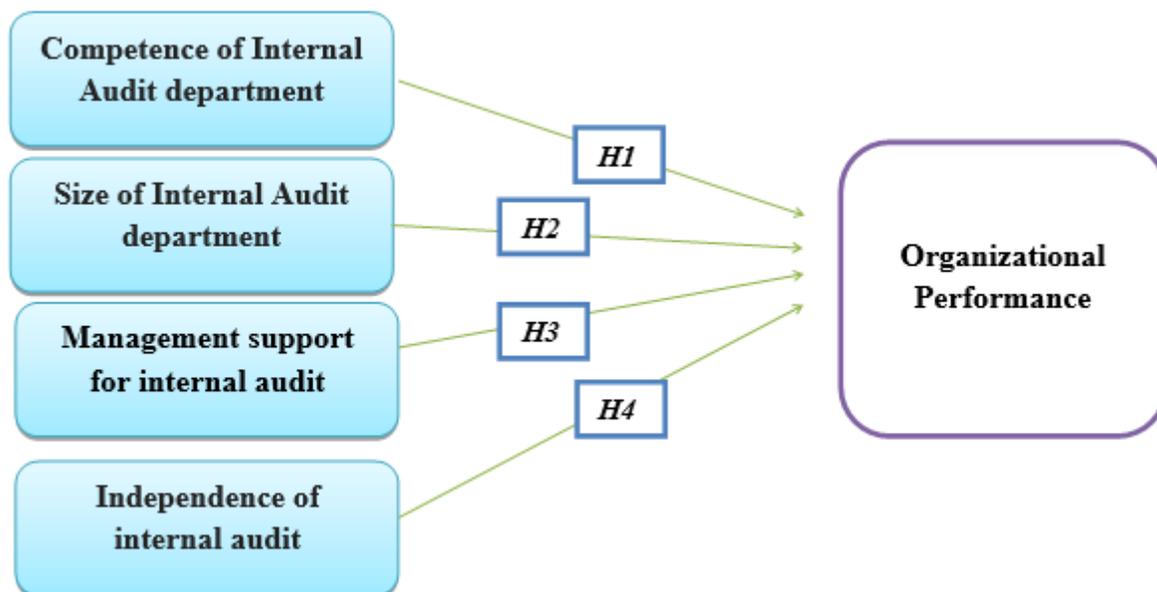


Fig.1: Conceptual framework

Hypotheses:

Hypothesis -1- There is a significant relationship between competence of Internal Audit department and organizational performance.

Hypothesis -2- There is a significant relationship between size of Internal Audit department and organizational performance.

Hypothesis -3- There is a significant relationship between management support for internal audit and organizational performance.

Hypothesis -4- There is a significant relationship between Independence of internal audit and organizational performance.

a = Constant

b1, b2, b3, b4, b5 = Coefficient regression

e = Error

III. RESEARCH METHOD

Multiple regressions were utilized to evaluate the scale of the influence of the four independent variables identified in the conceptual framework on organizational performance. The sample of this research was taken by random sampling method. The data were obtained by questionnaire. All variables were measured by using 5 point Likert scale. The researcher was able to obtain 139 filled questionnaires.

The basic model of multiple regressions is:

$$Y' = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Y' = Organizational Performance

X1 = Competence of Internal Audit department

X2 = Size of Internal Audit department

X3 = Management support for internal audit

X4 = Independence of internal audit

IV. ANALYSIS AND FINDINGS

Reliability analysis

Table (1) demonstrates the reliability analysis applied to survey the reliability of items employed to measure the organizational performance. According to the research model, the researcher developed four research hypotheses through using Competence of Internal Audit department, Size of Internal Audit department, Management support for internal audit, and Independence of internal audit as independent variables to measure organizational performance as dependent variable. Moreover, the findings of the reliability analysis were as follow: First result indicated that the items used to measure (competence of Internal Audit department) was found to be reliable since the value of alpha was .712, moreover the second result indicated that the items used to measure (size of Internal Audit department) was found to be reliable since the value of alpha was .736, as for the third result indicated that the questions used to measure (management support for internal audit) was found to be reliable since the value of alpha was .714, as for the fourth result indicated that the items used to measure (independence of internal audit) was found to be reliable since the value of alpha was .784, and finally the result for dependent variable indicated that the item used to measure organizational performance as dependent factor found to be reliable since the value of alpha was .781.

Table.1: Reliability analysis

Variables	Cronbach's Alpha	Items
Competence of Internal Audit department	.712	9
Size of Internal Audit department	.736	8
Management support for internal audit	.714	7
Independence of internal audit	.784	9
Organizational performance	.781	9
Total	.745	42

Correlation Analysis

Table (2) demonstrates the correlation analysis implemented to measure the relationship between four independent factors (Competence of Internal Audit department, Size of Internal Audit department, Management support for internal audit, and Independence of internal audit), with organizational performance as dependent variable.

The findings of correlation analysis revealed that the value of correlation between (Competence of Internal Audit department) as independent factor with organizational performance = .714**, as it is clear that (**) correlation is significant at the 0.01 level (2-tailed), accordingly it was found that there is a positive and significant correlation between (Competence of Internal Audit department) as independent factor with organizational performance, the

value of correlation between (Size of Internal Audit department) as independent factor with organizational performance = .701**, as it is clear that (**) correlation is significant at the 0.01 level (2-tailed), accordingly it was found that there is a positive and significant correlation between (Size of Internal Audit department) as independent factor with organizational performance, the value of correlation between (Management support for internal audit) as independent factor with organizational performance = .618**, as it is clear that (**) correlation is significant at the 0.01 level (2-tailed), accordingly it was

found that there is a positive and significant correlation between (Management support for internal audit) as independent factor with organizational performance, and the value of correlation between (Independence of internal audit) as independent factor with organizational performance = .698**, as it is clear that (**) correlation is significant at the 0.01 level (2-tailed), accordingly it was found that there is a positive and significant correlation between (Independence of internal audit) as independent factor with organizational performance.

Table.2: Correlations Analysis

Factors	Correlation	Organizational performance
Competence of Internal Audit department	Correlation	.714**
	Sig. (2-tailed)	.000
	N	139
Size of Internal Audit department	Correlation	.701**
	Sig. (2-tailed)	.000
	N	139
Management support for internal audit	Correlation	.618**
	Sig. (2-tailed)	.000
	N	139
Independence of internal audit	Correlation	.698**
	Sig. (2-tailed)	.000
	N	139
**. Correlation is significant at the 0.01 level (2-tailed).		

Regression Analysis

Table (3) demonstrates the findings of multiple regression analysis which employed to examine the four research hypotheses, the results revealed the followings: the P-value between Internal Audit department and organizational performance = .000, therefore, the first research hypothesis is supported which stated that ‘‘ There is a significant relationship between competence of Internal Audit department and organizational performance’’, the P-value between size of Internal Audit department and organizational performance = .000, therefore, the second research hypothesis is supported which stated that ‘‘ There

is a significant relationship between size of Internal Audit department and organizational performance’’, the P-value between size of management support for internal audit and organizational performance = .000, therefore, the second research hypothesis is supported which stated that ‘‘ There is a significant relationship between management support for internal audit and organizational performance’’, and the P-value between Independence of internal audit and organizational performance = .000, therefore, the second research hypothesis is supported which stated that ‘‘ There is a significant relationship between Independence of internal audit and organizational performance’’

Table.3: Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.041	.058		16.041	.000
Competence of Internal Audit department	.614	.021	.621	1.894	.000
Size of Internal Audit department	.623	.018	.631	1.974	.000

Management support for internal audit	.708	.008	.717	1.6984	.000
Independence of internal audit	.619	.016	.624	2.451	.000
Dependent Variable: Organizational Performance					

V. CONCLUSION

The purpose of this study is to investigate the factors influencing internal auditing and its relationship with organizational performance. The result showed that the P-value between Internal Audit department and organizational performance = .000, therefore, the first research hypothesis is supported which stated that “ There is a significant relationship between competence of Internal Audit department and organizational performance”, the P-value between size of Internal Audit department and organizational performance = .000, therefore, the second research hypothesis is supported which stated that “ There is a significant relationship between size of Internal Audit department and organizational performance”, the P-value between size of management support for internal audit and organizational performance = .000, therefore, the second research hypothesis is supported which stated that “ There is a significant relationship between management support for internal audit and organizational performance”, and the P-value between Independence of internal audit and organizational performance = .000, therefore, the second research hypothesis is supported which stated that “ There is a significant relationship between Independence of internal audit and organizational performance” The limitation of this study is very small number of populations; therefore the findings will be difficult to be generalized to examine factors influencing the internal audit effectiveness. Future research should consider larger number of the population also including more internal auditing factors to measure the organizational performance.

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