INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES

MARS MANAGEMENT ACADEMIC RESEARCH SOCIETY
EXPLORING INTELLECTUAL CAPITAL
www.hrmars.com
ISSN: 2222-6990

A Revisited Note on Internal Audit Function and Good Corporate Governance

Razana Juhaida Johari, Mohd Tarmizi Hati @ Mohd Hadi, Norfadzilah Rashid

To Link this Article: http://dx.doi.org/10.6007/IJARBSS/v8-i12/5067 DOI: 10.6007/IJARBSS/v8-i12/5067

Received: *07 Nov 2018,* ***Revised:*** *17 Dec 2018,* ***Accepted:*** *21 Dec 2018*

Published Online: 29 Dec 2018

In-Text Citation: (Johari, Hadi, & Rashid, 2018)
To Cite this Article: Johari, R. J., Hadi, M. T. H. @ M., & Rashid, N. (2018). A Revisited Note on Internal Audit Function and Good Corporate Governance. *International Journal of Academic Research in Business and Social Sciences*, *8*(12), 716–728.

Vol. 8, No. 12, 2018, Pg. 716 - 728

http://hrmars.com/index.php/pages/detail/IJARBSS | **JOURNAL HOMEPAGE**

INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES
www.hrmars.com
ISSN: 2222-6990

A Revisited Note on Internal Audit Function and Good Corporate Governance

[1]Razana Juhaida Johari, [2]Mohd Tarmizi Hati @ Mohd Hadi, [3]Norfadzilah Rashid
[1,2] Universiti Teknologi MARA, 42000 Shah Alam Selangor Darul Ehsan
[3,4,5]Faculty Economics & Management Sciences, Universiti Sultan Zainal Abidin, Malaysia
Corresponding Author: nikmfadzilah@unisza.edu.my

Abstract
In this paper, it was critically discussed the consequences of having a proper Internal Audit Function together with the good corporate governance mechanism in the business organizations. These consequences were included to safeguard the interest of the shareholders towards the business organization.

Introduction
The incidences of the corporate scandals and global financial crisis in recent years has brought forward the concept of corporate governance and received growing attention from the regulators and public. The large-scale corporate failures and major accounting scandals such as WorldCom and Enron have reduced public confidence on the reliability and independency of accounting and auditing profession as well as the reputation of the financial markets. The regulatory and professional bodies have response to these scenarios by introducing several act, regulations and new standards as to govern the actions taken by the respective professions and organizations. One of the focus that emphasized by the regulatory is to increase the demand and awareness for internal assurance on corporate governance processes, which includes risk management and internal control in each organizations or companies. This has been done by increasing disclosure requirements that is pertaining with corporate governance and well placed of internal audit function as an essential element of the corporate governance's assurance.

Moreover, an increase of awareness and courtesy on the function, roles and establishment of internal audit in a growing number of organizations have been experiential over recent years. A number of recent studies have stated the importance and significant of the internal audit function for regulatory reforms and its ability to add value concerning quality corporate governance, through its oversight role, its enhancements to the monitor and controlling environment and its potential to detect and mitigate fraud risk. In other word, internal audit function should be maintained to provide the management and audit committee with ongoing assessments of the company's system of internal control and risk management processes. It is claimed that the firm is in healthier position when it is equipped with an effective and efficient internal audit function that add value to services (Ridley & D' Silva, 2007).

In addition, in contributing the improvement of governance, the internal audit activity's objectives comprise ensuring effective management's accountability and performance, promoting right ethics and values, administrating risk and control information, and shared information between the management, board, internal and external auditors. The management, board, internal and external auditors are four interrelated pillars in an organization's governance process. To succeed, each pillar must be effective and must work together to support the organization's objectives and strategies with ethics and integrity. Ineffectiveness of these pillars will lead to the failure of organization's governance such as what happen to Enron where each pillars was not effective and both internal auditors and external auditors were from the same firm.
The objectives of the study is (1) to provide understandings on the current roles and responsibilities of the internal audit function and the necessary factors perceived in order to ensure its effectiveness; (2) to identify a relationship between internal audit function and corporate governance; and (3) to discuss on the internal audit function's contribution towards a high quality of corporate governance process.

Corporate Governance
Corporate governance is a broad concept that has been used by regulators, investors, accountants, and boards of directors. Levitt (1999) defined corporate governance as "the link between a company's management, directors, and its financial reporting system. Besides, Monks and Minow (2001) defined corporate governance as the "relationship among various participants in determining the direction and performance of corporations". Whereas, the Institute of Internal Auditors (IIA) defined governance as "processes deal with the procedures utilized by the representatives of the organization's stakeholders to provide oversight of risk and control processes administered by management.
The monitoring of organizational risks and the assurance that controls adequately mitigate those risks both contribute directly to the achievement of organizational goals and the preservation of organizational value. Those performing governance activities are accountable to the organization's stakeholders for effective stewardship". More lately, Roe (2004) defines corporate governance as the relationships at the top of the firm (the board of directors, the senior managers, and the stockholders). Based on his opinion, the institutions of corporate governance are those recurrent mechanisms that assign authority among the three that that effect in controlling the decisions made at the top of the firm. In short, corporate governance shows an idea of objectives communication, incentives, control and monitoring (Staciokas & Rupsys, 2005). The development of corporate governance rules and guidelines is happened due to the increases in corporate fraud, high profile corporate failures, and unethical business practices that caused by the growing lack of trust in directors.

Internal Audit Function

The internal audit function plays a unique role in the governance process. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Institute of Internal Auditors (IIA), 2009).

Management often requests internal auditors to help provide them with assurance that organizational processes are controlled effectively and efficiently and risks are identified and monitored effectively. The internal audit's unique role makes it often depicted as the "eyes and ears of management". Thus, internal auditors have to face conflict in assisting management to assess the effectiveness and efficiencies of their governance processes whereas reporting to the audit committee on the tone at the top. Figure 1 indicates substantial differences in functions and required skills in serving audit committee needs, as opposed in fulfilling the needs of management. Management requires the internal auditor to serve both assurance and consulting, addressing risks, evaluate the efficiency of operations, and stimulate organizational action. In contrast, the audit committee is more attentive in assurance concerning controls.

The internal audit function has advanced in many organizations to a leadership position in facilitating the organization in implementing, assessing, or conceptualizing risk management and control processes within an organization. In other words, internal audit has performed an active role in executing effective corporate governance and in assessing effective management's control practices. Through the provision of effective support to the management, internal audit constitutes an important element of the company's internal corporate governance (Freidank & Pasternack, 2011; Sarens & Abdolmohammadi, 2011). In this respect, if a quality assessment of internal audit activities can be made; internal audit function might be viewed as an intangible asset for an organization.

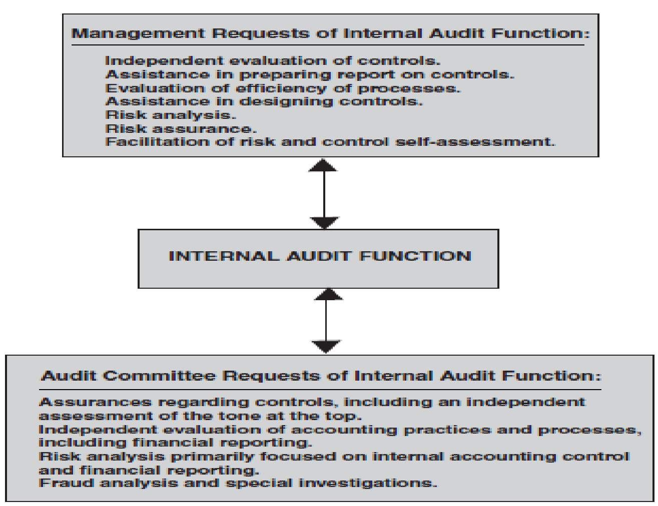

Figure 1: Competing Demands on Internal Audit Function
(Sources: Hermanson & Rittenberg, 2003)

Internal Audit Function and Corporate Governance

In the past 50 years, organizations in the private, public service and voluntary sectors have recognized internal auditing functions to provide assurance and improve their monitoring activities. At this time, most internal audit work pertained to internal accounting control and assets' security. Shortly after 1942, IIA were established worldwide to promote professionalism for internal auditing. The main aim at the time was to encourage internal auditors worldwide to meet and share their experiences in auditing. During this time, Mints (1972) stated that internal auditing relationships classified into three broad groups, which is traditional (protection, compliance), current moderate approach (constructive and protective, problem-solving) and participative teamwork approach (providing assistance in achieving organization objectives, working with management). Later, many research continues to form the internal auditors' behavior in the services they deliver and the professional guidance provided by the IIA.

Whereas, the governance developments started since Cadbury (1992) and supported both the significance of evaluating the controls' effectiveness and the significance of reviewing the requirement for internal auditing in a company. Then, there is existence of legal requirements for internal auditing for some time but these requirements are only focused on compliance and safeguarding of assets, and not for the services relating assurance and advice on risk management, control and governance issues. By 1999, the IIA with affiliated chapters and national institutes in many countries had developed into a global organization. IIA has revised its internal auditing's definition, re-emphasizing its important roles in risk management, control and for the first time it mentioned its roles in governance processes.

Since the publication of the Competency Framework for Internal Auditing (CFIA), the IIA Inc. and IIA-UK have revised the structure and curriculums of their professional qualifications to reflect its researched competency framework requirements. Professional examination curriculums/syllabuses considering the requirement for governance processes' knowledge and understanding. The IIA Inc. and IIA-UK also offer many training programs for internal auditor continuing education in risk management, control and governance. Also, as a learnt from previous corporate scandals, position paper on corporate governance reform has been set out by the IIA-UK and Ireland (2002). Three key lessons has identified, which is (i) loyalty and serving to the right stakeholders/interest; (ii) the role of the board; and (iii) the internal audit activity.

In 2002, the US Sarbanes-Oxley Act, was approved to meet requirement of board responsibility on the effectiveness of the internal financial controls' and the internal audit. A good effect of the Act is that the assessment of internal audit effectiveness at board level will emphasis on the quality assurance and continuous improvement of the program. This board's attention on quality of internal audit work could improve an organization's corporate governance framework. Moreover, COSO (2004) has introduced a new framework for Enterprise Risk Management (ERM) which brings up to date the ERM framework's components and takes risk processes across all an organization's operations.

In addition, in 2004, the IIA Inc. has defined internal auditing's role in governance processes which includes strategic management decisions and the implementation of organizational policies. The internal auditing could communicate governance issues outside the organization it serves particularly when those issues concern governance requirements and reviews by regulators, external auditors and other stakeholders. Also, the IIA Inc. has recognized audit committees' responsibility to review and approve internal auditing activities, monitor, and review its effectiveness. Thus, a solid working relationship between the internal audit activity and audit committee will be established in all its roles, which is assurance, consulting and teaching; and risk management, control and governance processes.

Without doubt, the Internal audit involvement on corporate governance practices has contributed to future changes and improvements in these practices. The IIA Inc., IIA-UK and IIA-Ireland as well as other IIA national institute has indicated their level of involvement in this mentioned development. However, conflicts in different internal auditing roles have not gone away. Some still see that some role of internal auditors might influence their objectivity and independence. These conflicts are identified, recognized and addressed in Code of Ethics, Auditing International Standards and supporting implementation guidance. Both IIA-UK and Ireland and IIA Inc. see a role for internal auditing in organization's sustainable developments. Such a role comfortably fits into the other internal auditing's roles and its work scope. Thus, this indicates that the contribution of internal auditing in sustainable development will be grew when organization performance is linked more directly into corporate governance practices.

The Role of the Internal Audit Function on the Governance Structure

There are several shared elements seem in the definition of internal auditing and organizational governance, particularly the elements of assurance, risk, and control. An effective internal audit function plays an important part in the two fundamental governance activities, which is monitoring of risks and providing assurance regarding controls. Figure 2 summarizes the roles of the internal audit function. Internal audit activity comprise risk assessment, control assurance, and compliance are elements that directly map into corporate governance. Moreover, internal auditors also may provide consulting or operational-oriented work, with the objective of improving the organization's effectiveness or efficiency.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (The IIA)

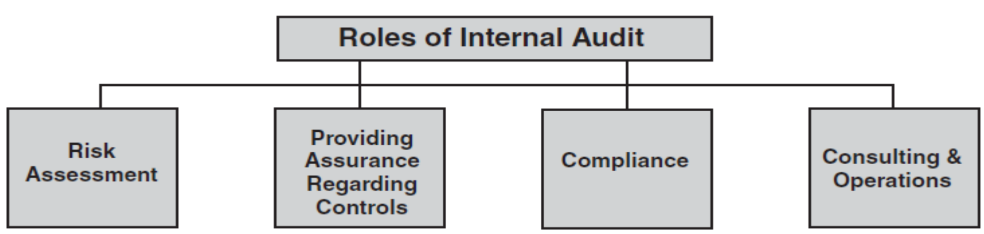

Figure 2: Nature of internal Audit Activity

Risk Assessment

Risk is the probability that an event or action, or inaction, may adversely affect the organization or activity under review. In the governance context, the key activity with respect to risk is to identify risk, assess the potential effect of the risk on the organization, determine a strategy to address the risks, and then monitor the environment for new risks along with the existing risk strategy. Risk is related to strategy. Risk assessment on new organization strategies and proper development of controls to mitigate risks linked with a strategy are an important management activities. Survey done by Fraser and Henry (2007) found that internal audit did have a role in the risk management process and internal audit provide some contribution in risk management process (Allegrini and D'Onza, 2003).

Providing Assurance Regarding Control

According to the IIA, control is defined as any action taken by management to increase the probability that established goals and objectives will be attained. Management plans, organizes, and directs the performance of adequate actions to offer reasonable assurance that goals and objectives will be attained. Therefore, control is the result of management's good planning, organizing, and directing. In the corporate governance perspective, the key element is to make sure that controls are established to address organizational risks. Management plans and implements a proper controls, while other members in governance focuses on oversight or assessment role.

Compliance

Compliance is one of audit activities which is planned to provide opinion to management and the audit committee about the control environment, ongoing compliance and conditions for potential risk. Compliance audit should concentrates on assessing the effectiveness of the compliance management program, comprising policies and procedures, monitoring, training, and consumer complaint response. There are two elements of assessing the overall effectiveness of a compliance program, which are quality control and audit. Moreover, the study made by Leung et al. (2004), stated that internal audit work is focused on risks and controls, with most governance work being concerned with compliance. Additionally, compliance with the four professional principles of the IIA (independence, integrity, impartiality, confidentiality) leads to better cooperation with the audit committees, since it provides the internal audit with an acknowledged position in the corporate governance structure (Abbott et al., 2010; Gramling & Hermanson, 2006).

Consulting and Operations

Consulting services as defined by the IIA is an advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. The consulting services should be conducted objectively. The study made by Brody and Love (2000) indicates that internal auditors are expected to undertake the position that is in the best interests of their employer. However, provides evidence from the study resulted that the consulting role of internal auditors impairing their objectivity. Also, study made by

Ahlawat and Lowe (2004) on the ability of internal auditor to remain objective on their consulting role indicates that there is significant advocacy existed in the judgement of internal auditors.

The Accountability Structures and the Management Relationships of Internal Audit

The good corporate governance should be considering for strong relationship between internal audit, audit committees and external auditors. The study made by Goodwin-Stewart and Kent (2006) on internal audit of Australian publicly listed companies stated the results that while size appears to be the dominant influence in establishing an internal audit activity, there is a strong relationship between internal audit and the level of commitment to risk management. But, the study mentioned that only weak support for an association between the use of internal audit and strong corporate governance. The consequences of these outcomes for contributing to good corporate governance are thoughtful, as it has been explained the difficulty of audit committees to be effective without the support of internal audit. Besides, Hass et al. (2006) further advise that internal audit need to place itself to actively involve with risk assessment, control and governance.

Moreover, most of the internal audit's key report were the risk assessment report, compliance report, internal controls report, and the information system report; whereas the report on corporate governance was frequently presented in an ad hoc way. A correlation analysis made by Leung, P, Perera, L and Cooper, B.J (2011) indicates that the frequency and reporting format on corporate governance issues are significantly linked to those of risk assessment, internal controls, and compliance. The compliance and assurance role of internal audit activity is a part where internal auditors are preferably qualified to offer management with the assurance they pursue. Compliance with the professional standards of the IIA determines the practical activity of the internal audit function with respect to effectiveness and efficiency that helps organizations to improve their corporate governance structure.

In addition, there was a strong and significant correlation between internal audit through Chief Auditor Executives (CAEs) access to Chief Executive Officers (CEOs) and to the chairs of the audit committees. This significant and positive correlation proved that CAEs could influence key management decisions through their effective oversight in main operations, the degree of timeliness and relevance of reporting information and recommendations. The significant role of CAEs in corporate governance were dependent on their access to CEOs and the audit committees as they believed that in order to add value to corporate governance, direct access to the audit committees was dependent on the quality, capability and personality of the board, and whether the internal audit activity was given adequate status/position in the organization.

The Predominant Internal Audit Objectives and the Related Functions

Paape et al. (2003), explores the relationship between internal audit and corporate governance. The basic result of this research is the differences during internal auditors work and the perception of the role of internal auditors to corporate governance by country. Hence, it is a fact that there is lack of internal audit and audit committee on 50 companies and business managers are unaware of the recommendations and regulations on corporate governance. Finally, compliance with regulations and procedures viewed as the main purpose of internal audit, while the implementation of operational controls is considered as the main contributor of internal control.

In other hand, Spira and Page (2003) found that the Turnbull Report's publication in the United Kingdom (UK) represented a fundamental redefinition of the nature of internal control as a characteristic of corporate governance, clearly aligning internal control with risk management. They prove that developments in reporting requirements of corporate governance provide opportunities for the appropriation of risk and its management, and changes in internal audit. Paape et al. (2003) observed at the relationship between corporate governance and internal audit issues among the European Union (EU) top listed companies and found that in the way internal auditors operate in the EU, there were some major differences, particularly in the way they see their role as supporting traditional internal audit areas instead of focusing more on contemporary issues such as corporate governance.
Based on Leung, P, Perera, L and Cooper, B.J (2011), the five most important internal audit objectives indicated by CAEs, were monitoring the effectiveness of internal control, risk assessment and management processes, procedural compliance including IT systems integrity, audit committees' briefs, and corporate governance issues. From that five important internal audit objectives, the internal auditors' focus on controls, risks and system compliance, that demonstrated positive relationships with corporate governance in which the audit committee's requirements are met. The finding indicated that internal auditors focus and concern on the achievement of main audit objectives to satisfy audit committees' briefs and corporate governance issues.

The Way Internal Audit Facing the Financial Reporting Risk and Issues

Colbert (2002) looks that the international standards on auditing need external auditors to communicate with governance body of their client concerning significant matters which come to the auditors' attention during the engagement. Likewise, the authoritative Practice Advisories issued by the IIA, require internal auditors to discuss certain issues with the board. Thus, the body or board who responsible for good governance should be getting information from both external and internal auditors. These both groups of auditors could assist in achieving board's objective of managing the entity to perform its mission effectively and efficiently and in line with good corporate governance practices.
Furthermore, most of the financial reporting issues and risk areas are concerned with disclosures, financial reporting compliance, transparency of earnings measurement, internal controls and risk management. Based on Leung, P, Perera, L and Cooper, B.J (2011) found that all the financial reporting issues encountered by the CAEs show significant positive correlations with each other. In context of corporate governance, occurrences concerning accruals accounting for example, have a significant and positive relationship with the importance objectives of internal audit pertaining fraud and investigations, meeting the requirements of external auditors, and dealing with corporate governance issues. This particular CAEs' consideration given to accruals accounting, which is considered as a fraud-related issue and is observed as significant for corporate governance.

Ability of the Internal Audit Function to Contribute Toward Quality Corporate Governance

Over recent years, an increase attention on the internal audit function have been observed. Many studies have been done on its establishment in a growing number of organizations (Arena and Azzone, 2007), its expanding roles (Spira, 2003; Carcello et al., 2005), and an increase in its size (Ernst

& Young, 2007). Also, these studies have provided findings about the importance of the internal audit function and its ability to add value towards quality of a corporate governance process, via its oversight role, its enhancements to the control and monitoring environment and its capability to mitigate fraud risk.

Internal Audit Function and Its Roles

The internal audit function acts as an agent for the audit committee and provides independent and objective assurance to the audit committee on internal corporate governance, compliance, internal control and risk management. Eulerich et. al (2012) stated that the professional orientation of internal audit activities provides added monetary and non-monetary value to the company for instance through better revelation of inefficiencies, errors or fraud. However, there is no requirement for the companies to disclose their internal audit function charter compared to corporate governance disclosure requirements such as audit committee charter. This situation caused limitation on the ability of researchers to examine the roles and responsibilities of the internal audit function and only depended on publicly available information. Research made by Carcello et al. (2005) and Castanheira et al. (2010) into the roles of the internal audit function indicate that the present nature of internal audit activity normally comprises compliance work, control assurance, and risk assessment, which all directly contribute to corporate governance.

In addition, the shifting nature of the internal audit functions' roles to recent regulatory reforms along with overall cultural changes inside their organizations in term of increasing on the acceptance of the significance and worth of having an internal audit function. These nature and cultural changes helps the top of the organization to increase emphasis on corporate governance and improve sensitivity of directors including the audit committees on their individual liabilities. People have realized the advantages of having the internal audit function as the 'eyes and ears' of the organization and it is often seen as in the best position to provide management assurance and to give advice in this area. Moreover, management expectations pertaining to shifts of the internal audit functions' roles, is that the internal audit functions' roles in the future could develop an even better focus on risk matters with an implementation of "just-in-time or real-time monitoring". Overall, they also indicated that internal audit function plays a significant part in organizations' business improvement processes and efficiencies as it has been given wide access and privileged position within the organization.

Effectiveness of the Internal Audit Function

Carcello et al. (2005) present that an efficient and effective internal audit function is essential for the company's success. Internal audit activities serves a significant part in the effective governance and organization's risk and control framework. The internal audit has as role to serve independent assurance service to the management, audit committee, and board. Such service must focus on reviewing the effectiveness of processes such as governance, risk management and control established by management. Therefore, certain key factors must be considered which have an impact on the effectiveness and efficiency of internal audit function that could directly contribute to corporate governance. They are:

(i) In-house versus outsourced internal audit function

As suggested by Coram et al. (2008) that a full or partial in-house of internal audit function is more effective than one that is completely outsourced. A shift to in-house functions contributed to positive perceptions of the internal audit function's effectiveness, which is likely the result of increased profile and visibility. However, there is limitation particularly on the economics and size of the organization when having in-house internal audit function.

(ii) Staffing and competencies

Prior studies show that a supportive control environment can have a significant and positive effect on the relative size of the internal audit function (Sarens & Abdolmohammadi, 2011). Also, there was clear acknowledgement that the internal audit function should be manned or staffed with a wide range of appropriate skills including audit, finance, technological, operational, and legal competencies. The previous study highlighted the results of the emphasis placed on having the correct people with the appropriate skills (particularly accounting and information technology) in the internal audit function and especially in the role of the CAE. Also, Soh, D.S.B and Martinov-Bennie, N, (2015) confirmed the findings of prior studies which is perceptions on the effectiveness of internal audit function are pertained to the expertise level within the function (Mat Zain et al., 2006) and the internal audit function's status, support, and position (Leung et al., 2004; Mat Zain and Subramaniam, 2007).

(iii) Relationships with stakeholders, organizational status and support

The contribution of internal auditing to corporate governance is represented through defining the relationship between internal audit and key players of corporate governance. The relationships of the internal audit function, particularly with senior management and the audit committee, in terms of proper reporting lines and support are apparent to be important in contributing to the effectiveness of internal audit function by ensuring independence and objectivity. Based on the audit committee, internal auditing contribute to corporate governance by carrying best practice ideas to the audit committee about risk management and internal controls processes, providing information and evidence about any irregularities or fraudulent activities (Rezaee and Lander, 1993), implementing audits and reporting the findings to the audit committee and advising audit committee to do periodic reviews of its practices and activities compared with current best practices to make sure that its activities are essential with leading practices (Karagiorgos et al., 2010). On the other aspect, an effective audit committee strengthens the position of the internal audit function by giving a supportive and independent environment and assesses the internal audit function's effectiveness. More exactly, the audit committee should assess with chief audit executive (CAE) and management the plans, activities and the internal audit function's structure; ensure that there are no inexcusable limitations and assess the internal audit function's effectiveness (Sawyer, 2003). It is essential for the audit committee to raise and protect the visibility and status of the internal audit function within the organization by giving the internal audit function an appropriate platform to present findings and recommendations at audit committee meetings. Good support from the audit committee is seems as a key factor contributing to the effectiveness of internal audit function. Audit committees also must confirm that the internal audit function is supported with adequately resourced, including approving the use of external resources when necessary. Overall, the results demonstrate that the relationship between the audit committee and the internal audit function is observed as critical to the effectiveness of internal audit function. Eulerich (2012) indicate that the close cooperation between the audit committees and internal audit as well as an adequate organizational implementation of the internal audit function seem to positively influence the beneficial effects of the internal audit function's role within a company´s corporate governance structure.

Furthermore, the findings made by Soh, D.S.B and Martinov-Bennie, N, (2015) give an understanding about the nature of the support and interactions between the audit committee and the internal audit function and are commonly consistent with post-regulatory reform studies in the USA (Beasley et al.,2009; Cohen et al., 2009). The results also give support for the significance of establishing clear reporting lines for the CAE (Mat Zain and Subramaniam, 2007), and the finding that a majority of CAEs report directly to either to both the audit committee and the CEO, or the audit committee alone (Leung et al., 2004). The recent study also give consideration of Cohen and Sayag's (2010) report that support from top management is most crucial to the internal audit function's operation and success, in showing how the audit committee is a crucial connection in this process. In addition, Leung et al. (2004), investigated the role of internal audit in corporate governance in Australia with the objective to determine the internal control' nature and the importance of corporate governance within the economic units. The result from their research was the fact that the culture and the support of the Board of Directors are key factors that directly affects internal audit's effectiveness.

Conclusion and Recommendations

The internal audit function often provides their services to parties integrally involved in governance processes, such as the audit committee, board of directors, senior management, and external auditor. Besides, the internal audit function also assists and adds value to those who are governed, such as management and individual organizational units such as operations, treasury, and information technology management. Thus, internal audit functions are often called upon to serve two parties which is those primarily responsible for governance and those being governed.

In addition, internal audit plays a critical role in effective corporate governance by providing a wide spectrum of assurance and consulting services. The contribution of internal audit function to corporate governance is represented through demarcating the association between internal audit function and key elements of corporate governance. An effective corporate governance leads organizations access to capital markets more easily to boost their capitals. Thus, it is significant for firms in developing countries because it can lead to managerial excellence and help firms with a weak corporate governance structure to raise capital and attract foreign investors. The internal audit function contribute to an effective corporate governance by to providing management a wide range of information sources such as organization's financial, operational and compliance activities to improve effectiveness, efficiency, and economy of management performance and activities. Also, internal audit function provides information about any anti-fraud controls would add value to the entire organization's activity, easing the identification and evaluation of the existing risks on all levels follow by several recommendations on what further actions should take such as reporting their suspicions to management.

With the understanding that corporate governance provides a compass for the journey, the internal audit charter should be aligned with the organization's long-term interests. There are costs to improving governance, whether through enhancing internal audit staffing, adopting Enterprise Risk Management (ERM), or further developing financial expertise among members of the audit committee. The returns may not be immediately measurable, but the long-term results of a successful governance program include better brand and reputation management, enhanced market value, compliance with regulations, sound business practices, and a more solid foundation for growth. Strong governance is part of a successful business strategy, and good governance can enhance an organization’s competitive position, assist in retaining superior employees, attract top-notch directors, and contribute to long-term improved financial performance. Anticipation of improved stakeholder returns, therefore, can help to justify the investment.

References

1) Ridley, J. and D'Silva, K. (2007), Internal Auditing's International Contribution to Governance, International Journal Business Governance and Ethics, Vol. 3, No. 2, 2007

2) Hermanson, D.R and Rittenberg, L.E. (2003), Internal Audit and Corporate Governance

3) Nagy, A.L. and Cenker, W.J. (2002), An Assessment of the Newly Defined Internal Audit Function, Managerial Audititng Journal, Vol. 17 No. 3 (2002), pp. 130-137

4) Leung, P., Perera, L. and Cooper, B.J. (2011), Accountability Structures and Management Relationships of Internal Audit: An Australiann Study, Managerial Audititng Journal, Vol. 26 No. 9, 2011, pp. 794-816

5) Regoliosi, C. and d’Eri, A. (2012), “Good” Corporate Governance and the Quality of Internal Auditing Departments in Italian Listed Firms. An Exploratory Investigation in Italian Listed Firms, Journal Management Governance (2014) Vol. 18, pp. 891-920

6) Stewart, J. and Subramaniam, N. (2009), Internal Audit Independence and Objectivity: Emerging Research Opportunities, Managerial Audititng Journal Vol.25 No. 4, pp. 328-360

7) Soh, D.S.B. and Martinov-Bennie, N. (2011), The Internal Audit Function: Perceptions of Internal Audit Roles, Effectiveness and Evaluation, Managerial Audititng Journal Vol.26 No. 7, pp. 605-622

8) Ahmad, Z. and Taylor, D. (2009), Commitement to Independence by Internal Auditors: The Effects of Role Ambiguity and Role Conflict, Managerial Audititng Journal Vol.24 No. 9, pp. 899-925

9) Soh, D.S.B. and Martinov-Bennie, N. (2015),"Internal auditors’ perceptions of their role in environmental, social and governance assurance and consulting", Managerial Auditing Journal, Vol.30 No. 1, pp. 80 - 111