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Effects of Corporate Governance Components on Internal Audit Task: The Case of Lebanon

By

Nurhan Halis Dogan

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Student Name: Nurhan Dogan   I.D. #: 200800379

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The undersigned certify that they have examined the final electronic copy of this thesis and Approved it in Partial Fulfillment of the requirements for the degree of:
MBA in the major of MBA

Signatures Redacted

Thesis Advisor's Name Mahmoud Araissi Signatur ate 24/08/2015

Signatures Redacted

Committee Member's Name Abdul-Nasser Kassar Signature Date 24/08/2015

Signatures Redacted

Committee Member's Name Walid Elgammal Signature ate 24/08/2015

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Dedication Page

To my loving parents, my aunt, and my brothers and sister.

Without their support, understanding, patience, and

most of all love, the completion of this

work would not have been possible.

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Effects of Corporate Governance Components on Internal Audit Task: The Case of Lebanon

Nurhan Halis Dogan

ABSTRACT

Corporate Governance is vital to the survival of any corporation. Because of its immense importance in both developed and developing countries, many recent studies noticed the need to enhance corporate governance in developing countries. Considering the case of Lebanon where corporate governance is not legally enforced, companies tend to neglect the importance of maintaining quality corporate governance. Several recent studies suggested the importance of existing interactions among the major components of corporate governance in any corporation and internal audits. This thesis seeks to explore the effects of corporate governance components' on internal audit tasks in medium-Large corporations in the Lebanese financial sector. The results showed that corporate governance components affect internal audit tasks. When the components are considered separately, top management and audit committee are found to have significant influences on the internal audit tasks whereas internal audit tasks are less influenced by external auditors and board of directors. On the other hand, when the four corporate governance components are jointly considered, their combined effect on internal audit tasks revealed that top management, audit committee, and external auditors significantly influence internal audit tasks.

Keywords: Corporate Governance, Board of Directors, Audit Committee, Top Management, External Auditors, Internal Audits.

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Chapter I

INTRODUCTION TO CORPORATE GOVERNANCE

This section highlights the overview and background of corporate governance, the need for undertaking this study, the research problem aimed to be investigated, the research objectives, the relevance of this study and finally the limitations.

1.1 Overview and Background

Corporate governance is generally known as a set of rules and regulations that is intended to increase the accountability of the corporation to protect it from bankruptcy; high-quality of corporate governance ensures that the company is being accountable and performing well (Shivdasani & Zenner, 2004). A remarkable move which led to increased interest about corporate governance was the collapse of large companies as Enron, WorldCom, and others; this resulted in a financial crisis since many companies shared the same characteristics as Enron (Niskanen, 2005). Thus, this shows why every corporation should have strong corporate governance. A recent study by Yuedong, Dong, & Xingyu (2014) was done to study the influence of corporate governance structure on internal audit. Although internal audit is considered a key part in controlling and protecting any company from bankruptcy and fraud, internal audits are being monitored by board of directors, external audits, top management, and the audit committee (Yuedong, Dong, & Xingyu, 2014). That being the case, the current study seeks to determine the effectiveness of corporate governance components in relation to the functioning of internal audits in public and state-owned corporations in Lebanon.

1.2 Need for the study

Corporate governance became a demanding concern for every corporation. Taking the case of Lebanon since corporate governance is not legally required; companies tend to neglect the importance of maintaining quality corporate governance. Many points of view suggested the importance of existing interactions among the major components of corporate governance, such as board of directors, audit committee, top management, external audit, and internal audit. The latter is considered to be a resource for the other components (Mihret & Admassu, 2011).

The purpose of this study is to determine which of these elements affects internal audits. First, the board of directors represents the shareholders in the company, so their interest might conflict with others. However, by supervising internal audits, this will influence internal audit tasks (Dawuda, 2010), so examining these effects will come up with the best coordination between both parties. Moreover, the audit committee has authority in the corporation over internal audit (DeZoort, et al., 2002); this relationship might affect internal audits, depending on the extent to which the audit committee influences internal audits tasks. Furthermore, top management is a major element in the corporation since the responsibilities of organizing and controlling all actions are their main duties (Institute of Directors, 2009). Thus, by presenting certain procedures and restricting them over internal audits, this would control the tasks accomplished by internal audits. The last component is external auditors. Many studies investigated the relationship between external audits and internal audits. The article by Schneider (2009) highlights that in the presence of impartial guidance on the work and duties given to external and internal auditors. This will cause sharp dissatisfaction for the auditors involved. In addition, a survey was conducted for internal auditors, where it was reported that the work and efforts presented by internal auditors are not appreciated by external auditors (Schneider, 2009). Thus, examining the effects of external auditors on internal auditors is essential.

1.3 Research Problem

Due to many previous collapses of large organizations, corporate governance transformed into a demanding concern to every company. Therefore, a high level of corporate governance must be achieved (Niskanen, 2005). In addition , many studies have shown the importance for maintaining good corporate governance so that it gains public confidence. However, the Lebanese private and public sectors still don’t consider corporate governance as an important and obligatory mechanism since it is not legally required. The major issues are the need to enhance the corporate governance, but since corporate governance considers the balance of interest between its stakeholders (management, financiers, shareholders, etc.), the effect of such components should be examined on internal audits that are responsible for fraud detection (Mensah, et al., 2003).

1.4 Research Objectives

This study aims to examine and analyze the major influences applied by the audit committee, board of directors, external audits, and top management on internal audits.

1.5 Relevance of the Study

Upon completion, this study will demonstrate the effects imposed on internal audits in the Lebanese corporations. By presenting such impacts, high level decision makers in any corporation will be able to minimize or maximize the existence of such effects on internal audits. Moreover, this research complements prior studies that stated the existence of these effects on internal audits, where the work of internal audits had been restricted by each of the board of directors, audit committee, top management and external auditors. The study will state the important role internal audits have on any corporation since they detect any fraud in the financial statements. Also, this study will focus on improving the role of each corporate governance component to better govern any corporation.

1.6 Limitation of the Study

The questionnaire pursues the opinion of different employee levels; each employee had to answer from the point of view based on their department. As a result, the employee showed minimal level of interest in the study performed. Thus, the design of the questionnaire created some limitations on the study. Also, the employees, who participated in the study, were all located in Beirut, where big firms are all located. For example, small companies, established outside the capital, won't perform the different functions of corporate governance. Also, if the major companies are not implementing good governance, smaller companies won't implement it. Thus, the main focus was on the leading companies operating in Lebanon to complete this study.

Chapter II

PRIOR STUDIES

In the next section, the following elements will be discussed: the literature review and the hypotheses aimed to be tested. The literature review is divided into three parts: corporate governance, corporate governance components (board of directors, audit committee, top management and external audits) and internal audit tasks.

2.1 Literature Review

Corporate governance

In 1992, a report was issued by Sir Adrian Cadbury on Corporate Governance. In this report, he examined the main reasons for the liquidity of many companies in that time, and the effects of this financial crisis. In addition, he suggested that corporate governance must be focused on directing and monitoring corporations (Cadbury, 1992). Similarly, corporate governance is defined as a method that clearly shows a plan to accomplish corporation's objectives and to control performance in the company (Organization for Economic Cooperation and Development, 2004). According to Parker (2007), the outflow of corporate bankruptcy and frauds boosted the interest of companies to have major concentration on directors and managers, and accounting professions. In general, companies tend to mandate additional auditing to better guard themselves from financial misrepresentations, since corporate governance principles are considered one of the best ways to shrink the financial risk that companies are exposed to (Fama, 1998). Moreover, the Institute of Internal Auditors (IIA) stated in 2006 that by employing good corporate governance principles, companies tend to attain the objectives of sustainable administration and accountability to their owners (IIA, 2006). Therefore, this provoked public-owned and certified companies to track the worldwide trend to establish a series of regulatory standards for corporate governance. In a similar manner, the Lebanese Code of Corporate Governance stated that companies should establish a good internal system by maintaining the principles of corporate governance so this will increase the earnings of companies, attract new investors and achieve a core competency among other corporations. This code was published by the Lebanese Transparency Association. It is considered a reference to appraise the tasks achieved by the corporate governance components (LCCG, 2006). Also, the report provided by the Lebanese Transparency Association assisted many other countries throughout the Middle East to establish similar codes (LCCG, 2006).

It is considered that corporate governance is a combination of several components such as the board of directors that monitors the organizational professionals and the audit committee who aims is to maintain organizational functioning and objectives (Rezaee, 2005). Also, Khanchel (2007) stated in her article that what attains an organizational governance structure is the board of directors, audit committee, external audits, internal audits as well as top management. Thus, effective corporate governance relies on having a well performing board of directors and managers, solid internal and external audits and independent board members (Mihăilescu & Ducu, 2011).

Corporate Governance Components

Board of Directors

Several studies were aimed to evaluate the components of corporate governance. According to King II Principles, maintaining independence by the board of directors' members will achieve the standards toward good corporate governance (Institute of Directors, 2002). Therefore, independent directors tend to be more effective in controlling the accomplishments by the corporation (Bhagat & Black, 2001). Also, meetings should be prepared and scheduled directly by the board members when the conditions require direct actions and control (Shivdasani & Zenner, 2004). Additionally, King II report states that the board members meetings must vary from one to four meetings annually, in order to check the company's performance (Institute of Directors, 2002).

The board of directors acts as representatives of shareholders in the corporation and its main goal is to ensure the best outcome to all stakeholders (Ayuso & Argandona, 2009). However, by overseeing the internal audit task, this will influence its efficiency. Thus, examining these effects is essential to come up with the best coordination between board of directors and internal audits (Alkhafaji, 2007). Moreover, Beng (2009) supports that particularly the board of directors and the audit committee have a major impact on monitoring internal control deficiencies. Moreover, having a strategic oversight role would allow the board of directors to control threats faced by the company.

According to Cadbury (1992), one of the main duties of the board of directors is to maintain sufficient accounting records. The board needs to sustain a proper internal control system that includes procedures intended to minimize fraud risks. Besides preventing and detecting fraud, the duty of the board is to guard the assets of the corporation. However, as identified in the auditing regulations the auditor's duty is to accurately plan, complete and estimate his audit tasks, so the board could have a logical probability of perceiving misstatements in the financial reports (Fraser & Henry, 2007).

Also, Shivdasani & Zenner (2004) claim that board forums serve to share information on the corporation plans, performance, and strategies. Therefore, researchers suggest that boards should equate the costs and profits of the board's meetings and ought to be eager to increase their meeting when the situation necessitates the board's supervision. When the board increases their meetings, this could reveal poor performance in the corporation.

According to King III, it is a legal obligation of the board of directors to perform at the best outcome of the corporation. However, the board has an option to decide to apply what best suits the company and still achieve fairness, responsibility, accountability, and transparency which are the values of good corporate governance. Thus, the board must guarantee that debates and choices are based on maintaining valuable corporate governance and sustaining a good financial performance (Institute of Directors, 2009).

Also, Xie et al. (2003) declare that due to the increase in the size of board of directors and the meeting held by them, the higher the problems are in the corporation. In other words, the internal audits will tend to do more tests in order to maintain a good image to the board of directors and prove that processes are implemented for fraud detection. This will result in a higher cost on the company because of failure to detect the true problems when all the focus is on the board of directors meetings.

Moreover, the board needs to ensure that the corporation has an independent and efficient audit committee, and also must guarantee that the company has an effective internal audit function. The board must provide a report on the function of internal audits to maintain a good internal control structure. Also, the internal audits must present a report on the internal control system to the board of directors (Institute of Directors, 2009).

Furthermore, an annual report, done by a qualified internal auditor, must be presented to the board to show an objective reassertion. To clarify, the financial data is fairly presented in the company and the best results are performed (OECD, 2004)

Audit Committee

An audit committee is a self-governing group that involves experts from different areas in the organization. It has an important role in endorsing good corporate governance, so it is considered one of the main pillars of corporate governance (Badara & Saidin, 2013). Such committees are responsible for several tasks in the company, such achieving accuracy of financial data, having an effective internal and external audit tasks and preventing fraud from the company (El-Kassar, Elgammal, & Bayoud, 2014). Also, the Sarbanes-Oxley Act describes the audit committee as a group elected by the board of directors to supervise financial reporting and accounting data. Nowadays, the audit committee’s role in supervising audits and auditors is more perceptible and demanding. In other words, it is considered as one of the most dependable sentinel in the corporation (Levitt, 2000).

Davies (2009) investigates the existence of an effective relationship between the audit committee and internal audits is a must, if they worked as a team. However, the audit committee has more authorities in the corporation by evaluating the internal audit task and appointing the head of internal audits (Davies, 2009).

Moreover, Mohamad-Nor et al. (2010), reveal that the effectiveness of the audit committee influences the effectiveness of internal audit task. Also, a Karamanou & Vafeas (2005) highlight that an audit committee must offer assistance to the internal audit tasks to achieve expansion in the overall audit function. Furthermore, Bishop, et al. (2000) argue that an operative collaboration between audit committee and internal audits is an important section for good corporate governance. The existence of this relationship is essential because of the mutual strengthening function both have. Moreover, the audit committee duty is to maintain the independency of internal audits (Goodwin & Yeo, 2001).

Both Sarens & De Beelde (2006) examine the reason why audit committees ask for the support of internal audits. First, the audit committee’s main aim is to achieve a satisfied level of comfort, so its target is to monitor other components such as internal audit to work at its best interest (Beasley et al., 2009). The European Union directive mentions on legal audit that maintaining a good relationship between both audit committees and internal audits aims to enhance the financial quality and minimize risk. Also, it is stated that audit committee must evaluate the financial reporting of internal audits (European Union Directive, 2006).

Moreover, previous research done by Raghunandan (2001) and Scarbrough et al. (1998) argues that regular communication must exist between both the audit committee and internal audits to inform and give a deep knowledge to the audit committee about auditing and accounting issues. Having this relationship is an important resource for the corporation because the high internal audit quality task can discharge the audit committee responsibilities and improve its effectiveness. Besides, since the internal audit's task can reduce the problems that exist between the audit committee and employees in the corporation, the audit committee aims to monitor the internal audit task to perform at its best interest. Additionally, new qualitative studies by Gendron et al. (2004), Gendron & Be'dard (2006), and Beasley et al. (2009) prove that meetings of the audit committee involves practices, which aim to comfort the members regarding the accuracy of financial data and the quality of task done by internal audits. Furthermore, Gendron et al. (2004) discuss that the audit committee at different Canadian state-owned corporations relied on the task performed by the internal audits to expand their own approval, if the internal control at the corporation is effective.

Additionally, the recent study done by Gendron & Bédard (2006) concludes that the audit committee teams perform various actions with internal audit reports to achieve their own comfort of corporation's internal control. Also, this study found evidence supporting that internal audit should provide detailed knowledge to the audit committee in order to enhance internal controls. Thus, an informal way of communication must exist between the head of internal auditors and the chairperson of the audit committee, so that the concerns of the committee would be raised. Hence, this led to improved governance by reporting to the audit committee (Gendron & Bédard, 2006).

The audit committee regularly focuses on several details. Since the committee doesn't have enough interaction with the company, it insists on having interactions with the internal auditor so it can have better planning (Beasley et al., 2009).

According to Carrington & Catasu (2007), the audit committee seeks comfort when it comes to internal controls. In order to forbid any discomfort, the audit committee contributes to the forecasts of internal audits. The committee expects the internal audits to analyze the value of internal control system by following its recommendations. Also, the head of internal audits reveals that specific requests are suggested by the audit committee which turned out to be a precedence that is included in the plan of internal audits. When the audit committee believes the internal audit tasks can improve internal controls, they monitor their tasks to achieve this improvement. Besides, Christopher et al. (2009) argue that internal audits staff tasks are appraised by the chairperson of the audit committee, who is also responsible for allocating or discharging the head of internal audits.

Furthermore, the Lebanese Code of Corporate Governance (2006), states that the mission of the audit committee should be to plan and evaluate the corporation's financial reports and accounts. Also, the committee must review internal audits financial reports, and prepare a detailed annual report that will be reviewed by the board of directors before adding to the corporation's annual report (Lebanese Code of Corporate Governance, 2006).

Listed by King III, the audit committee is responsible for supervising the internal audits by approving the internal audit plan. To clarify, the performance of the auditors is evaluated by the committee. The duties of the audit committee include managing the financial reporting threats, enhancing internal control, detecting fraud risks, and appraising the effectiveness of the internal audit practices (Institute of Directors, 2009).

Moreover, Beasley et al. (2009) deduced that informal meetings, set with auditors, tend to influence their tasks since the audit committee is prone to ask probing questions.

In addition, a study was performed by interviewing several auditors regarding the impact of other corporate governance components on the auditing procedure, and the researchers mainly focused on the influence of the audit committee. The results were that many of the auditors look at audit committees as ineffective and weak (Cohen et al., 2002). However, Cohen et al. (2010) updated the 2002 study by questioning more auditors after the financial scandal of Enron and the increased interest on corporate governance; they found out the opinion of auditors on audit committees changed to considering them more powerful, experts, and active.

Besides, it was realized that committee members depend greatly on both internal and external auditors. In view of the fact that audit committees don't desire the responsibility of detecting fraud, they want to act as vigilant supervisors of internal audits because detecting fraud is beyond their limit (Beasley et al., 2009).

Top Management

In any corporation, corporate governance is a set of mechanism intended to authorize high level decisions, and shrink the agency conflict. Thus, maintaining effective corporate governance ensures that management is acting at the best interest of shareholders (Jizi, M, 2015). Agency conflict states that managers in the corporation might tend to misuse their authorities against the shareholders. Thus, the board of directors must supervise managers and control their power (Jizi, et al., 2014).

As mentioned earlier, after the financial scandal of Enron, the Sarbanes-Oxley Act was agreed on that top management was required to report any important changes in internal controls (Beng, 2009). Top management is a major element in the corporation since the responsibilities of organizing and controlling all actions are among their main duties. Thus, by presenting certain procedures and restricting them over internal audits, this would control the tasks accomplished by internal audits (Fraser & Henry, 2007). Top management must establish effective and accurate control procedures and implement them over internal audits (Alkhafaji, 2007).

Leventis et al. (2005) argue that top managers should take a good perceptive of the internal audit report so that they can apply procedures to enhance the audit report equally. Also, Stuart (2008) describes agency theory as the conflicts that occur between both managers and owners of the corporations since owners require management to act in their best interests. However, Adams (1994) mentions agency theory to clarify that management aims to have a strong internal audit unit. Also, he adds that continuous communications exist between management and internal auditors, so the tasks of internal auditors must not be dominated by top management and no interference should exist by the management to influence the audit outcomes (Adams, 1994).

The Institute of Internal Auditors explains that the internal auditors should get their power and duties from the charter, but not receive orders from top management. Also, top management must coordinate with internal audits since this coordination is consistent to what extent these auditors can achieve the company objectives. Therefore, the assurance and support of top management is crucial to have an effective internal audit function (Institute of Internal Auditors, 2006).

Both Mihret & Yismaw (2007) declare that when top management fails to implement internal audit's suggestions, this has an impact on the auditor's attitude to improve audit value, and their commitment to achieve the objectives of the company. Moreover, both authors added that the findings and results suggested by internal audits won't be effective unless they were implemented by top management. The results of these studies implied that managers who don't perceive the internal audit tasks attractive to them, would lead to have a low internal audit performance. Thus, it is realized that internal auditors don't get the required assistance from management due to interferences of top management in the duties of internal auditors (Dawuda, 2010).

Also, Cadbury (1992) highlights an additional problem, faced by internal auditors, is that when top management is involved in the deception they don't have the required proof to support their doubts. Here, the task performed by internal audit would be affected since they are not in a strong position to face top management or report to the proper authority.

Furthermore, Guruswamy (2012) examines in his article that coordination usually exists between top management and internal auditors, where auditors provide assurance that there's an appropriate internal control system and that procedures are efficiently and effectively performed. Therefore, in order to attain these procedures, internal auditors must complete their tasks separately with no management pressure. Besides, in his study, the findings reveal that the relationship between top management and internal auditors is hard to identify since they both are not achieving their duties in cooperation with each other. Thus, this affects the overall operational effectiveness and competence of the corporation. Meanwhile, this could be explained by the task performed by internal audits where their main focus in on maintaining internal control system rather than improving work performance and services supervised by top management (Guruswamy, 2012).

Also, Stuart (2008) ensures that even the most professional and skilled internal auditors won't be effective if they were demoralized by top management. Also, according to an audit committee chairman, the majority of members in the corporation will appreciate good tasks done by an internal auditor, so it's better to be fast in reporting problems rather than negotiating them with top management (Stuart, 2008).

External Auditors

Currently, internal audits are an important component for every organization. On the other hand, external auditors heavily depend on internal auditors' accomplished work to complete their external audit tasks since both parties aim to achieve a proper internal control system (Guruswamy, 2012). According to Diamond's (2002) recent study, more importance and interest have been placed on the internal audit tasks. Enron, WorldCom, and other companies have boosted the awareness to maintain a good accounting procedure and internal audit task. Moreover, Xiangddong (1997) emphasizes that the duties performed by internal audits have an important role in promoting good corporate governance, upholding an advantage over external audits in acquiring information promptly and discovering problems at a prior stage.

When mentioning external auditors, one can consider their job different from that of the internal audits. For example, Schneider (2009) investigates the relationship between external audits and internal audits. He discusses that coordinating work between external and internal audits would lead to more effective reviews at a lower cost. Also, Mihret & Admassu (2011) state that both auditors must organize tasks together in order to avoid wasting time on tasks previously performed. However, many problems were encountered because of this coordination mainly attributable to external auditors. In the presence of impartial guidance on the work and duties given to external and internal auditors, this will cause a severe dissatisfaction for the auditors involved (Schneider, 2009). In addition, a survey was conducted for internal auditors where it was reported that the work and efforts presented by internal audits were not appreciated by external auditors. Internal-external auditor effectiveness could be achieved if both coordinated tasks between each other to improve corporate governance (Mihret & Admassu, 2011).

Nevertheless, of external auditors believe that internal auditors are their assistants since they represent one part of internal control (Mihret & Admassu, 2011). But according to Institute of Internal Audits (2009), internal audit tasks are seen as independent and their objectives are designed to sustain assessment and enhance the operations of the company.

Also, the efforts of internal and external auditors should match each other since both serve to achieve common objectives of the company's internal control system, such as preventing or detecting errors and fraud and preparing financial reports that imitate factual and integrity vision of the company (Dawuda, 2010). Furthermore, the head of internal audits should enhance the relationship with external auditors by exchanging information on threats, sharing work performed and discussing problems identified; this aims to enhance the relationship between both parties into an effective one (Sarens & De Beelde, 2006).

The internal auditors report to the audit committee or high-level management, but the external auditors report to the company's members. According to Institute of Internal Audits (1999), in spite of the differences between both, external auditors can't perform without the help of internal auditors since they are perceived as the "eyes of the company". Thus, with the coordination of internal auditors, the external auditors can perform their audit duties on time. Also, it is important to state that the external auditors' reliance on internal auditors depends on the extent to which the internal audit component is effective.

Internal Audit Tasks

In response to the financial scandals and the Sarbanes-Oxley act, several corporations are powering their internal audit units and giving them independence from top level authorities (Kaplan & Schultz, 2007). Internal audit task is considered as the first line of defense in the corporation to promote good financial reporting (Wangui, 2012). Today, with the increasing size of many corporations, the auditing role is highlighted to improve internal control, discover incorrect financial records and accounting transactions and achieve productive corporation control (Belay, 2007). Internal audit is an independent element, which aims to achieve assessment and to enhance the operations of the company (Institute of Internal Audits, 1999). This shift denotes that internal audit went from being only concerned about a company's accountability to enhancing the future results in order to function more successfully (Nagy & Cenker, 2002); (Stern, 1994); (Goodwin, 2004). Also, Goodwin (2004) added that the definition stated by the Institute of Internal Audits aims to promote good corporate governance in both private and public companies. Besides, the IIA aims to promote the internal audit tasks as an essential component in corporate governance. This was illustrated by providing a new definition for internal audits, where they stated that internal audits as a component which assists the company in achieving its objectives and enhance the effectiveness of governance procedures, internal control, and risk management (IIA, 1999). This shows that an internal audit department which dynamically obeys the definition and follows the Standards of IIA will give the company the ability to support the board of directors and audit committee since it is a vital component for their control systems (ECIIA, 2005).

Pickett (2004) mentioned that today the high interest of corporations has shifted toward internal audit; earlier internal audit tasks were considered as a method to review thousands of financial records. However, nowadays internal auditors tend to focus on eliminating fraud and controlling risk management. This great shift was reasoned by the uncertain surroundings in which corporations function (Pickett, 2004). Therefore, currently, internal audits should focus on risk management and control, which means preventing mistakes and fraud rather than detecting them. As well, Dittenhofer (2001) states that maintaining a good quality level of internal audit tends to contribute to the success of duties in the company.

Currently, auditors provide comfort to different departments at the corporation since they protect the company from fraudulent statements. Therefore, a world in the absence of auditing and accounting unquestionably is a cause of uncertainty (Pentland, 1993). Moreover, internal auditors had expanded more appreciation from the stakeholders, since internal audit is concerned with the corporate governance procedures (Mihăilescu & Ducu, 2011). Also, stakeholders seek verification that internal audits perform their job on an accurately skilled structure, so it is vital for the financial institutions to specifically announce that they structured the internal audit tasks (Mihăilescu & Ducu, 2011).

However, many recent studies suggested the importance of existing interactions among the major components of corporate governance, such as audit committee, board of directors, external audit, top management and internal audit; internal audit is considered to be a resource for the other components (Mihret & Admassu, 2011). In other words, investors always seek assurance for their investments to be productive. In order to always attract investors several companies have depended on corporate governance components, so the absence of existing interactions between the components provides a good situation for ineffective tasks to thrive (Mensah, et al., 2003). Also, a recent study by Fraser & Henry (2007) examines the effects of corporate governance structure on internal audit. It states that companies that have a bigger size of audit committees and board of directors, a cooperative relationship between external audits and internal audits and management support, influences the relationship with internal audits. However, placing an important role on the company's board of directors, audit committees, and internal audits is one of the major current developments in corporate governance to protect the corporation from any embedded risk (Fraser & Henry, 2007). Besides, effective corporate governance involves having an appropriate relationship between board, management and audit professionals to pursue objectives that serve the best of the company (Organization for Economic Cooperation and Development, 2004).

Similarly, Sarens (2009), Belay (2007), Goodwin-Stewart & Kent (2006), and Gramling et al. (2004) have expressed multiple views regarding internal audits. Some points of view argue that internal audit is a main component of corporate's internal control. On the other hand, while others view internal audit tasks as a way to enhance the board's control through evaluating threats and enhancing internal control. In other words, internal audits are being monitored by other factors in the corporation; they should get a proper support from the audit committees, board of directors, and management since their presence would improve the internal control and reduce fraud and error. Thus, to achieve the internal audit independence, a good cooperation must exist with the corporate governance components (Guruswamy, 2012).

Presently, internal audit functions on different levels. First, it gives an independent evaluation concerning the corporate governance structure (Institute of Internal Audits, 2009). On the other hand, internal auditors are eager for change, so they provide suggestions in order to support corporate governance components (Millichamp, 2002). Moreover, top management and board of directors control multiple systems in order to accomplish effective corporate governance. Therefore, internal auditors can enhance the procedure by supporting management and the board (Mihăilescu & Ducu, 2011). Also, stated by the King Code of Governance, internal audit is a main tool in the corporation for governance. Each year, internal auditors must provide a written evaluation to the board of directors regarding the system of internal controls and risk management. Also, internal audits must provide assessment to the audit committee on the internal control effectiveness. Thus, by providing this evaluation annually, certain effects are to be enforced on the internal audit quality tasks (Institute of Directors, 2009). Furthermore, internal audits is supposed to sustain the corporation's governance procedures, maintain an internal control structure, submit information concerning fraud, dishonesty and irregularities and most importantly adhere to the Institute of Internal Audit Standards (Institute of Directors, 2009).

In addition, it is stated by the Lebanese Code of Corporate Governance (2006) that the board of directors must set up an effective system for internal audits, where the internal audit tasks will be monitored by a top level manager and he will report directly to the board. Also, it is required from the head of internal audits to provide a report to the audit committee that includes financial reports, and to coordinate tasks with external auditors.

Dawuda (2010) stated in his article that the internal audits objectives in the company are to assist managers, board of directors, audit committee and coordinate duties with external audits.

As a conclusion from the listed definitions mentioned earlier, there is no single recognized description for corporate governance. However, the majority of these definitions listed the four components of corporate governance: board of directors, audit committee, top management, and external auditors to promote sound corporate governance.

A previous study (El-Kassar, et al., 2014), showed the effects of internal audit on corporate governance quality taking the four components mentioned above. The paper showed existing effects of internal audit on the audit committee, and top management. However, no influence from internal audits was found on the board of directors and on external auditors. One of this paper's recommendations was to prove the opposite of what was previously tested. The recommendation was to investigate if the board of directors, audit committee, external audits, and top management influence internal audit tasks, which is the objective of the current study.

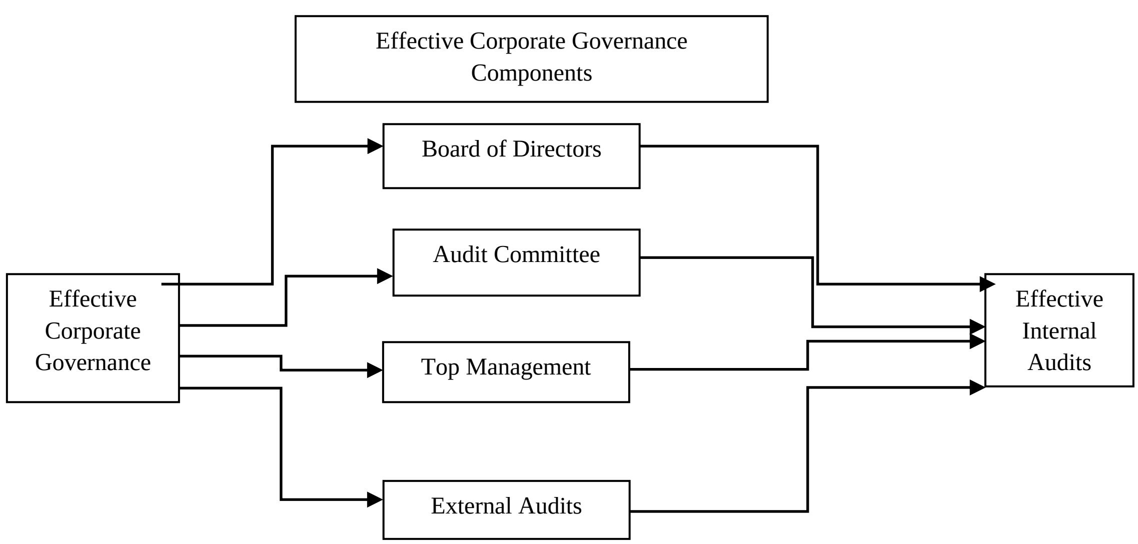

Figure 1: Conceptual framework

2.2 Hypotheses

After stating the purpose of this study, and according to prior tests examined, the following hypotheses are to be tested:

Board of Directors:

$H_{1:}$ The Board of Directors has a significant effect on Internal Audit Function.

$H_{1a:}$ The Board of Directors has a significant effect on the independence of the internal audit function.

$H_{1b:}$ The Board of Directors has a significant effect on the reliability of the internal audit function.

$H_{1c:}$ The Board of Directors has a significant effect on the qualifications of staff in the internal audit function.

Audit Committee:

$H_{2:}$ The Audit Committee has a significant influence on the effectiveness of the Internal Audit tasks.

$H_{2a:}$ The Audit Committee has a significant influence on the independence of internal audits.

$H_{2b:}$ The Audit Committee has a significant influence on the reliability of internal audits.

$H_{2c:}$ The Audit Committee has a significant influence on the qualifications of internal audits.

Top Management:

H_{3}: Top Management procedures have a significant impact on internal audits tasks.

H_{3a}: Top Management procedures have a significant impact on the independence of internal audit tasks.

H_{3b}: Top Management procedures have a significant impact on the reliability of internal audit tasks.

H_{3c}: Top Management procedures have a significant impact on the qualifications of internal audit tasks.

External Auditors:

H_{4}: The external auditors have a significant influence on the performance of internal audits.

H_{4a}: The external auditors have a significant influence on the independence of internal audits.

H_{4b}: The external auditors have a significant influence on the reliability of internal audits.

H_{4c}: The external auditors have a significant influence on the qualifications of internal audit staff.

Chapter III

METHODOLOGY

In this section, the methodology of this study is presented. It includes definition of variables, measurement techniques, sample, data collection, and statistical methods.

3.1 Definition of Variables

The measured variables were obtained from the previous stated hypotheses. These variables were also stated in the questionnaire, so the collected data would be relevant to perform the study. The measured variables are the components of corporate governance: Board of Directors, Audit Committee, Top Management, and External Auditors, and also the Internal Audit Task.

The Independent Variables: Board of Directors, Audit Committee, Top Management, and External Auditors.

The Dependent Variable: Internal Audit Task, and its sub-measures: Internal Audit Independence, Internal Audit Reliability, and Internal Audit Qualification.

In order to conduct the statistical analysis, scores were constructed to measure the Corporate Governance Effectiveness score (CGES) and Internal Audit Effectiveness score (IAES). These scores were obtained from the set of questions related to corporate governance components and internal audit tasks. In addition to the overall effectiveness score, based on factor analysis done in a previous study by (El-Kassar, et al., 2014) sub-measures were identified.

The scores are obtained as follows:

Part I: Questions related to the Corporate Governance components effectiveness: CGES which is the sum of the corporate governance components set of questions.

- BDES: Board of Directors Effectiveness score is the average of questions (1-4)
- ACES: Audit Committee Effectiveness score is the average of questions (5-10)
- TMES: Top Management Effectiveness score is the average of questions (11-12)
- EAES: External Auditors Effectiveness score is the average of questions (13-14)

Part II: Questions related to Internal Audit Tasks effectiveness: IAES which is the sum of internal audit quality task set of questions.

- IAIS: Internal Audit Independence score is the average of questions (1-4)
- IARS: Internal Audit Reliability score is the average of questions (5-9)
- IAQS: Internal Audit Qualifications score is the average of questions (10-14)

3.2 Measurement Techniques

A convenient previous questionnaire was designed referring to the study done by ElKassar, et al. (2014). All sections of the questionnaire were used since it is related to the variables measured in this study.

The questionnaire was divided into three parts. The first section includes the demographical data of the respondent (gender, age, degree level, specialization, years of experience, and professional certificate). The second section includes the effectiveness of the components of corporate governance. The third section includes the internal audit effectiveness tasks.

The questionnaire was designed to take about a maximum of 5 minutes from the respondent's time, so that the number of participants would increase and shrink decliners.

3.3 Sample

Convenient sampling was used in this study. First, secondary data was obtained from the previous questionnaire used. The target segment was the working population, generally the age group of 21 and above working in different levels and departments, such as accounting/auditing department, business administration department, financial department etc… in the Lebanese financial sector.

Data were collected using convenience sampling and were added to this research. Out of 150 questionnaires distributed, 103 completed the survey. The respondents included 40 auditors, 8 audit firm, 20 banks, 10 universities, and 25 accountants.

Hence, the sample used to conduct the study consists of a total of 103 respondents.

3.4 Data Collection

The data collection method was quantitative.

The respondents were first contacted through phone calls to get their personal emails. Then the questionnaire was directly sent by email to the selected candidates. The candidates were followed up so that the maximum number of respondents can be targeted.

3.5 Statistical Methods

The data were analyzed using the SPSS statistical program, in order to identify the relation between the independent and dependent variables. Correlation was used to identify the relationship between each corporate governance components and each sub-measure of internal audit tasks. Also, multiple regression, and backward elimination regression were used to identify the relationship of the four corporate governance components on each internal audit tasks sub-measure.

Chapter IV

ANALYSIS AND DISCUSSION

In this section, several statistical techniques were performed to test the previous stated hypotheses. These techniques include: descriptive statistics, correlation analysis, multiple regression, and backward elimination regression.

4.1 Descriptive Statistics

We begin by presenting the descriptive analysis. The SPSS (predictive analysis software) output for the descriptive statics for gender showed the following.

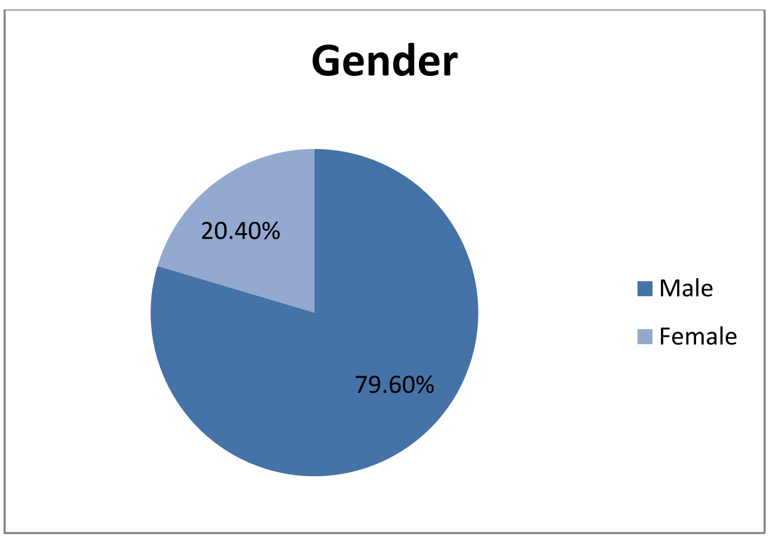

Figure 2: Descriptive gender statistics

The majority of the respondents are males (79.60%), and 20.40% of the respondents are females.

The SPSS output of age showed the following:

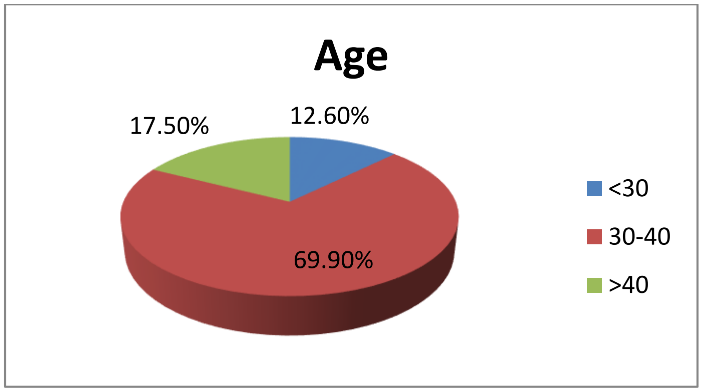

Figure 3: Descriptive age statistics

Based on the results, 69.90% of the respondents are between 30 and 40 years old, while 17.50% of the respondents are over the age of 40, and 12.60% of the respondents are less than 30 years old.

The following results show the degree level of the respondents:

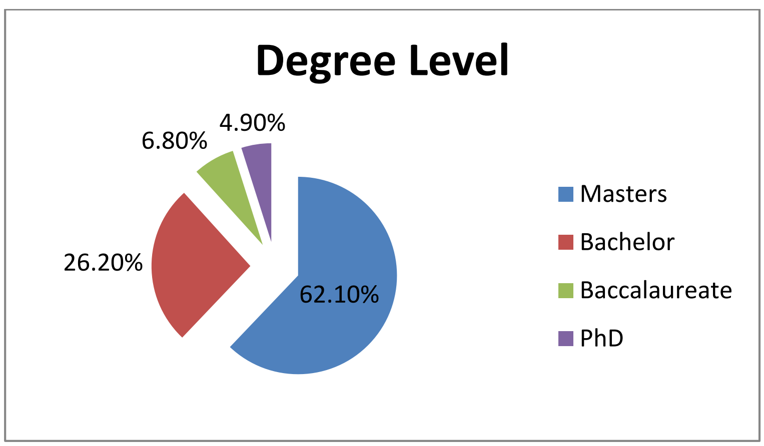

Figure 4: Descriptive degree level statistics

According to the degree level, the majority of the respondents hold a master's degree (62.1%). While the rest of the respondents either have bachelor degree (26.2%), baccalaureate degree (6.8%), and PhD degree (4.9%).

The below figure states the specialization of the respondent:

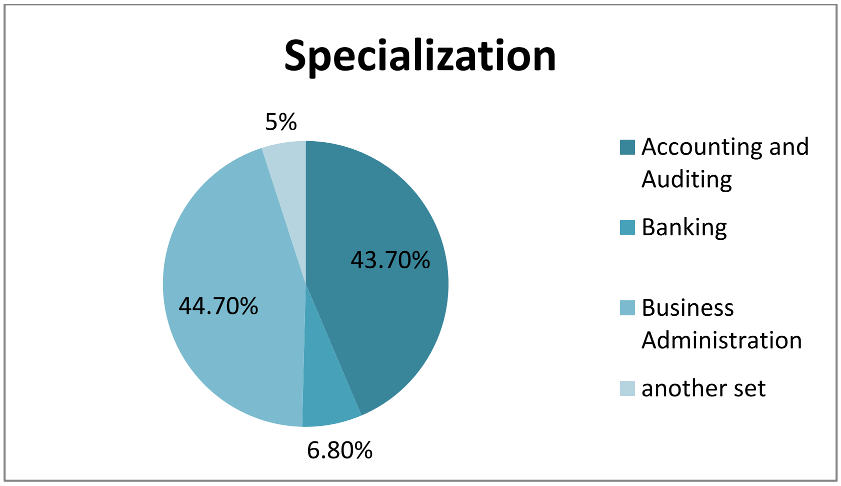

Figure 5: Descriptive specialization statistics

Both business administration (44.70%) and Accounting and Auditing (43.7%) majors are close to each other. 6.80% of the respondents specialized in banking, and 5% in another set.

Based on the SPSS output for descriptive statistics for experience the following could be stated:

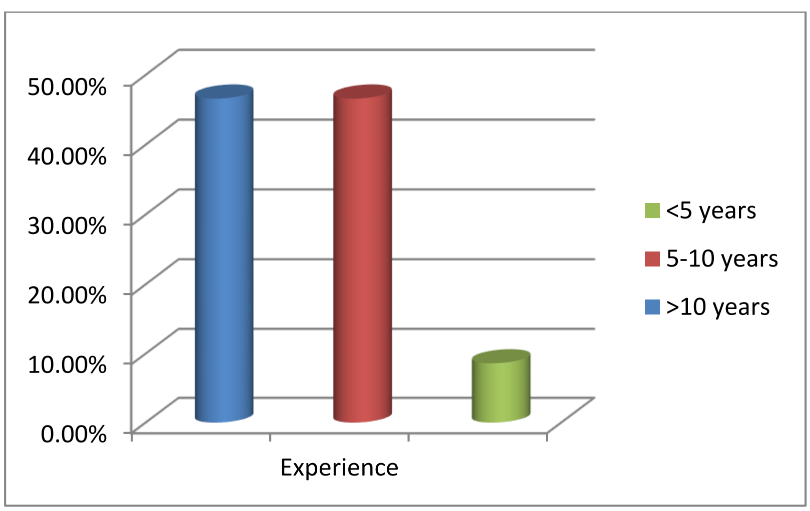

Figure 6: Descriptive years of experience statistics

The majority of the respondents have a minimum of 10 years' experience, 46.6% have either (5-10 years) or more than 10 years. On the other side 6.8% only of the respondents have less than 5 years' experience.

The below figure shows the certificate of the respondents:

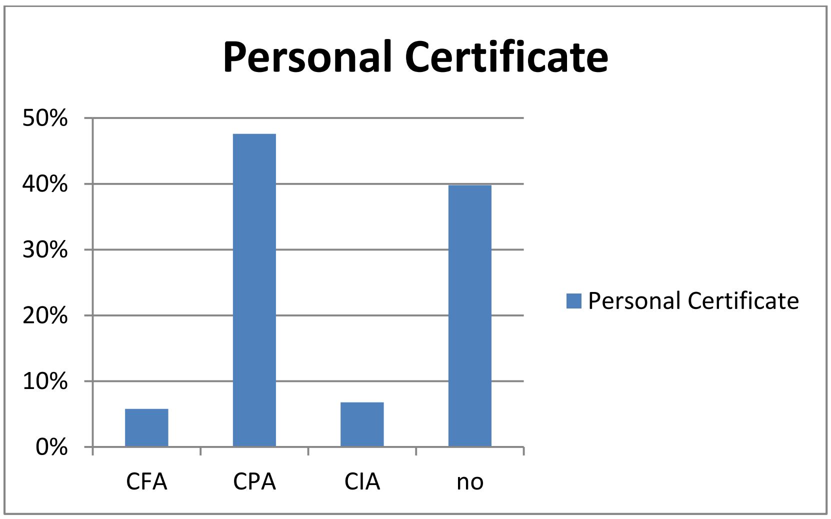

Figure 7: Descriptive Personal Certificate Statistics

The SPSS output showed that 47.6% of the respondents have a Certified Public Accounting (CPA), 39.8% of the respondents don't hold a certificate, 6.8% of the respondents hold a Certified Internal Auditor (CIA), and 5.8% of the respondents hold a Chartered Financial Analyst (CFA).

According to the demographics statistics, it can be deduced that the majority of the respondents are qualified employees with expertise in the financial field. The sample targeted is knowledgeable, highly educated, mature, specialized in both accounting and auditing and business administration which means they make a qualified sample to complete this survey. Thus, according to these data provided, this increases the reliability of the responses and the respective conclusion that could be driven.

For each corporate governance component and each group of items related to the internal audits sub-measures, reliability analysis was conducted. The Cronbach's alpha values obtained were as follows: 0.832 for IAIS, 0.7255 IARS, 0.855 IAES, 0.777 IAQS, 0.854 CGES, 0.925 BDES, 0.725 TMES, and 0.866 EAES.

Since all Cronbach's alpha values were above the threshold of 0.7, we can conclude that the data is reliable and further analysis can be conducted.

The SPSS output for descriptive statistics scores are listed in the following table:

	N	Minimum	Maximum	Mean	Std. Deviation
IAES	103	3.71	4.79	4.3363	.23725
IAIS	103	3.75	5.00	4.3908	.31829
IARS	103	3.60	5.00	4.2874	.34376
IAQS	103	3.20	5.00	4.3417	.42160
CGES	103	3.43	4.79	4.3433	.31677
BDES	103	3.50	5.00	4.3131	.32973
ACES	103	3.33	5.00	4.2783	.46582
TMES	103	4.00	5.00	4.7282	.44709
EAES	103	3.00	5.00	4.2136	.58829
Valid N (listwise)	103				

Table 1: Descriptive Statistics of Corporate Governance Components score and Internal Audits sub-measures score

Descriptive statistics on internal audit tasks

Based on a 5-point Likert scale obtained from SPSS, Table 1 shows the mean of internal audits effectiveness scores (IAES) is 4.33, the mean of internal audits independence score (IAIS) is 4.39, the mean of internal audits reliability score (IARS) is 4.28, and the mean of internal audits qualifications score (IAQS) is 4.34. Thus, the averages of internal audits effectiveness score and its sub-measures varied between 4.28-4.40. This average implies that the companies operating in Lebanon have high concern about achieving highly effective internal audit tasks, ensures on maintaining the independence of internal audits, have reliable internal audits, and retain highly qualified internal audit staff.

Descriptive statistics of corporate governance components

Based on a 5-point Likert scale the mean of corporate governance effectiveness score (CGES) is 4.34, the mean of board of directors effectiveness score (BDES) is 4.31, the mean of audit committee effectiveness score (ACES) is 4.27, the mean of top management effectiveness score (TMES) is 4.72, and the mean of external auditors effectiveness score (EAES) is 4.21. Thus, the averages of corporate governance effectiveness score and its components varied between 4.21-4.73. This average implies that the companies operating in Lebanon have highly effective corporate governance, have a strong board of directors, have an active audit committee, have an effective top management, and good external auditors.

It should be stated that, after the bankruptcies of large companies mainly in 2002 financial crisis, maintaining corporate governance became the concern of companies in order to gain the public's support and confidence. Thus, the main demanding concern shifted towards corporate governance, and the results here showed that companies are achieving good corporate governance.

On the other side, companies tend to have a strong internal audit quality in order to achieve good corporate governance and protect the company from deceptive financials. Thus, all respondents working in different companies proved that companies tend to excel in terms of sustaining quality corporate governance.

4.2 Correlation Matrix

Corporate governance effectiveness score

		IAES	IAIS	IARS	IAQS
CGES	Pearson Correlation	.349**	.320**	.087	.285**
	Sig. (2-tailed)	.000	.001	.382	.003
	N	103	103	103	103

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table 2: Correlation analysis of CGES with IAES and its sub-measures

N.B: the results didn't show high correlation among the independent variables.

Based on the correlation matrix, at a 0.01 level of significance, a correlation exists between the CGES and IAES. Also, both IAIS and IAQS have a positive significant relationship with CGES.

Maintaining effective corporate governance would assess the effectiveness of internal audit, since in the aim of improving the organizational performance, having an effective internal audit lies in having strong corporate governance. Corporate governance effectiveness can be defined as the link between corporate directors, management, and its financial system (Levitt, 2000). Thus, relationship among various corporate governance components exists. Moreover, corporate governance effectiveness has a significant effect on internal audit independence, because good corporate governance practices ensure that internal audits are acting independently (Hermanson & Rittenberg, 2003). Also, stated by IIA (2006), that internal auditing acts as independent assurance to the corporation in order to improve the effectiveness of governance processes. Thus, the corporate governance effectiveness influences the internal audits independence in the corporation.

However, there is no significant relationship between CGES and IARS. IARS is related to the internal audit reliability score. Thus, these results imply that the corporate governance effectiveness influences both the independence and qualifications of the internal audits staff. However, the reliability of the internal audit staff is not influenced by the corporate governance effectiveness, which in fact is true since the trustworthiness of internal audits, should not be affected by any other factor within the corporation. As stated by The IIA (2009), internal auditors must always provide reliable and truthful operational and financial information. In addition, corporate governance components always assure that qualified staff possesses expertise in their field.

Board of Directors effectiveness score

		IAES	IAIS	IARS	IAQS
BDES	Pearson Correlation	-.028	.066	-.019	-.069
	Sig. (2-tailed)	.780	.506	.850	.492
	N	103	103	103	103

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table 3: Correlation analysis of BDES with IAES and its sub-measures

Based on the correlation matrix, no correlation exists between BDES, and IAES and any of the 3 sub-measures. H_{1}, H_{1a}, H_{1b}, and H_{1c} are rejected at the 99% level of confidence. Based on this result, it can be deduced that the effectiveness of the board of directors doesn't have a significant effect on any internal audit score. One can notice from the above results that the board of directors' responsibility is to direct the company as a whole, not to monitor particular departments; therefore, their work effectiveness doesn't influence the independence, the reliability, and the qualifications of internal audits since they don't monitor internal audit's work. The results could be explained by the King II principles, where it's considered that achieving good corporate governance depends on maintaining the independence of the board of directors (Institute of Directors, 2002). The National Association of Corporate Directors stated that the board of directors should act independently in the corporation and their main role is to oversee the performance of the whole corporation and to manage the business (NACD, 1996). Also, a popular acronym stated by National Association of Corporate Directors that the board of directors' duties is "nose in, fingers out" which mean that board of directors oversees the corporation but do not interfere in the daily activities of the company (NACD, 1996).

Similarly, stated by the IIA (2009), internal audits should act independently in the corporation to deliver better accomplished tasks. Thus, the board of directors doesn't influence the independence of internal audits. Moreover, since internal audit is considered as the most effective tool to enhance the corporation performance, having independent internal auditors is essential to deliver accurate financial reports and evaluate the well-functioning of the company (FareedMastan, et al., 2015). Thus, in any corporation, having independent internal auditors is essential for better governance.

Audit Committee effectiveness score

		IAES	IAIS	IARS	IAQS
ACES	Pearson Correlation	.476**	.422**	.104	.411**
	Sig. (2-tailed)	.000	.000	.297	.000
	N	103	103	103	103

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table 4: Correlation analysis of ACES with IAES and its sub-measures

Based on the correlation matrix, at a level of significance 0.01 a significant positive correlation exists between ACES and IAES, IAIS, and IAQS. However, it was found that no correlation exists between ACES and IARS which stands for the reliability of internal audits. H_{2b} is rejected at the 99% level of confidence. The audit committee has a significant effect on internal audit effectiveness in general and on its independence and qualifications of staff. One can notice from the above results that the audit committee enhances the independence of internal audit, and ensures having qualified staff in the corporation, so audit committee's responsibility is to monitor the effectiveness of internal audits. First, stated by an audit committee chairperson that internal audit is seen as the "eyes and ears for the audit committee", and the audit committee has an oversight role by reviewing internal audits' qualifications and its effectiveness (Steinberg & Bromilow, 2000). Thus, the audit committees' important role is to ensure that internal audit tasks are effectively performed. Also, as stated by Davies (2009) that both audit committee and internal audits can achieve effective tasks if they both worked as a team and the appointment of the head of internal audits is done by the audit committee (Davies, 2009). Also, the audit committee requires independent evaluation from the internal audits on financial reporting (Hermanson & Rittenberg, 2003). This supports that the effectiveness of the audit committee has a significant effect on internal audit tasks. Moreover, his could be explained by the report done by The National Commission on Fraudulent Financial Reporting (1987), where it was stated that an independent audit committee can distract internal audits independence. Thus, the audit committee's effectiveness has an effect on internal audit effectiveness. Moreover, the audit committee aims to appoint an internal audit director that demonstrates independence, objectivity, and has leadership abilities (Stuart, 2008; Steinberg & Bromilow, 2000). Thus, this will achieve operative independence and effective internal audit tasks. In short, having an effective audit committee can improve or protect the independence of internal audit department, and also they ensure on implementing the recommendations of internal audits and since the audit committee reviews the work accomplished by internal audits, they can recognize the internal audits qualification. Therefore, as stated by FareedMastan et al. (2015), having an ineffective audit committee or its absence tends to make the internal audit department ineffective.

Top Management effectiveness score

		IAES	IAIS	IARS	IAQS
TMES	Pearson Correlation	.514**	.289**	.335**	.362**
	Sig. (2-tailed)	.000	.003	.001	.000
	N	103	103	103	103

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table 5: Correlation analysis of TMES with IAES and its sub-measures

Based on the correlation matrix, at a level of significance 0.01 significant positive correlation exists between TMES and both IAES, IAIS, IARS and IAQS. Internal auditors are often referred as the "eyes and ears" of management in the corporation. Thus, top management plays an important role in assessing internal control (Hermanson & Rittenberg, 2003). It can be concluded from the correlation table that top management effectiveness has a significant effect on the independence, reliability, and qualifications of the staff. These results can be explained by the fact that top management requires other departments' support; also reliability could be affected since internal audit reports to two different groups in the corporation. Top management often calls for assurance on an effective and efficient corporate process from the internal audits, thus it can be concluded that top management's monitor staff accomplished work and oversight if they are performing well. Thus, this affects the type of staff this corporation has (Hermanson

& Rittenberg, 2003). Also, management's internal control effectiveness is appraised by the internal audits, thus an effective work accomplished by top management would have an effect on internal audit tasks.

Top management effectiveness has a significant impact on the independence of internal audit since it requires their assurance on monitoring risks by requiring their assessment in achieving governance effectiveness, also it affects their reliability since the internal audits face conflicts and pressures by reporting both to the top management and audit committee, and finally it also affects the qualifications of the staff since maintaining a qualified internal auditor is necessary to have an effective task accomplished (Hermanson & Rittenberg, 2003). Also, stated by FareedMastan et al. (2015), that the duty of top management is to ensure having an effective internal audit unit by providing a strong and communicated audit charter. Thus, this will strengthen the effectiveness of internal auditors.

External Auditors effectiveness score

		IAES	IAIS	IARS	IAQS
EAES	Pearson Correlation	-.176	-.090	-.151	-.100
	Sig. (2-tailed)	.075	.365	.127	.317
	N	103	103	103	103

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table 6: Correlation analysis of EAES with IAES and its sub-measures

Based on the correlation matrix, no significant correlation exists between EAES, and IAES, IAIS, IARS, IAQS. Thus, $H_{4,}$ $H_{4a,}$ $H_{4b,}$ and H_{4c} are rejected at the 99% level of confidence. However, for further analysis, it should be stated that a negative relationship exists between EAES and all the internal audits scores. It can be deduced that, external auditors' effectiveness doesn't influence the independence, reliability, and qualification of the staff of internal audits. In a coordinated working environment both internal and external auditors work independently (Felix et al., 1998). As mentioned in the literature part, internal audits have an advantage over external audits in determining problems at a prior stage (Xiangddong, 1997). Thus, the external auditors' effectiveness doesn't have an effect on internal audits since tasks are not coordinated effectively between both parties. Furthermore, the results could be explained by the independent operations both auditors accomplish (Balkaran, 2008). Thus, by having different duties towards the corporation, each party functions according to their job and duties, so external auditors' effectiveness doesn't have an effect on internal audits tasks. Lastly, the negative relationship that exits between them could be supported by the fact that both must organize tasks together in order to avoid wasting time on tasks previously performed (Mihret & Admassu, 2011).

4.3 Multiple Regression

Independent variables

BDES
ACES
TMES
EAES

Dependent variables

IAES
IAIS
IARS
IAQS

After examining each component's effect alone on the overall internal audit effectiveness and on each sub-measure of the internal audit task, multiple regression is required in order to examine the effect of these four components together on internal audit tasks. As mentioned earlier in the literature part, in any corporation, the coordination between the components of corporate governance is essential to achieve good performance. Thus, examining the four components together on internal audits is required.

Independent Variables: BDES, ACES, TMES, and EAES.

Dependent Variable: IAES

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.149	.303		10.378	.000
	BDES	.048	.060	.066	.799	.426
	ACES	.235	.055	.462	4.300	.000
	TMES	.140	.053	.263	2.646	.009
	EAES	-.163	.037	-.404	-4.431	.000

Table 7: Multiple regression of corporate governance components with IAES

Based on the multiple regression analysis, new results were deduced. First, the four independent components BDES, ACES, TMES, and EAES were combined together to analyze their effect on IAES. The results were as stated by previous analysis tools except for the external auditors. BDES doesn't have a significant effect on IAES, ACES have a significant positive effect on IAES, TMES have a significant positive effect on IAES, and EAES have a significant negative effect on IAES. It is important to mention here that external auditors hypothesis which was eliminated by previous tests, is now acceptable after taking the four components together. The results of external auditors changed here because of the four components combined together. The audit committee's responsibility is to ensure the effective relationship between both external auditors and internal audits (Steinberg & Bromilow, 2000). Thus, by combining the ACES and EAES this resulted in a significant effect of the external auditors on internal auditors in the presence of audit committee. As mentioned by Schneider (2009), that work and efforts presented by internal audits are not appreciated by external auditors, so this leads to the dissatisfaction of internal audits due to the lack of coordination between both parties. Also, a survey was done by Taylor & Glezen (1997) which stated that external auditors frequently ask senior internal auditors to perform junior tasks. This ineffective relationship was shown by the negative significance. External auditors' influences the effectiveness of internal audits since the coordination between both is not supervised by a higher authoring in the corporation. Also, Felix et al. (1998) stated that the interactions that exist between both external and internal auditors tend to enhance the effectiveness of the financial statement audit done by internal audit department. Thus, coordinating activities between both groups, would lead to an effective audit work.

Independent Variables: BDES, ACES, TMES, and EAES.

Dependent Variable: IAIS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	3.077	.458		6.710	.000
	BDES	.137	.090	.142	1.516	.133
1	ACES	.386	.083	.564	4.660	.000
	TMES	-.022	.080	-.031	-.281	.779
	EAES	-.195	.056	-.360	-3.499	.001

Table 8: Multiple regression of corporate governance components with IAIS

Based on the multiple regression analysis, BDES and TMES don't have a significant effect on IAIS. On the other hand, ACES has a significant positive effect on IAIS while EAES has a significant negative effect on IAIS. The analysis here is different than the previous results. Previously, TMES had a significant influence on IAIS, and EAES didn't have a significant influence on IAIS. Top management here doesn't have a significant effect on the independence of internal control. The change in the results here is due to the presence of audit committee component as a combination of different components together. This could be explained by the fact that internal audits reports directly to the audit committee not to top management, this will tend to allow internal audit to act independently without referring to top management (Hermanson & Rittenberg, 2003). Also, as previously stated that the audit committee has an outstanding role in achieving effective corporate governance, so audit committee's superior role had trusted internal audits to directly report to the audit committee, and not to the top management (Hermanson & Rittenberg, 2003). Moreover, stated by FareedMastan et al. (2015), a professional audit committee should be independent from top management and this would boost the independence of internal audit department. Therefore, the existence of proficient audit committee will limit top management's authorities. In addition, EAES resulted in a negative significant influence on IAIS. This implies that external auditors influence the independence of internal audits. The reason behind the change in the results is that the audit committee is not effectively separating the independence of both groups. Moreover, corporations tend to use external auditors to perform internal audits tasks in order to cut costs, so this might lead to conflict of interests without maintaining the independence of both parties (Gray & Manson, 2011).

Also, internal auditors contribute the most to the financial statement disagreement that exists between both groups since the interference of external auditors in the financial statement would lead to an ineffective relationship between both groups.

Independent Variables: BDES, ACES, TMES, and EAES.

Dependent Variable: IARS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.324	.534		6.220	.000
	BDES	.045	.105	.043	.430	.668
	ACES	-.059	.096	-.081	-.617	.539
	TMES	.307	.093	.399	3.299	.001
	EAES	-.102	.065	-.174	-1.567	.120

Table 9: Multiple regression of corporate governance components with IARS

Based on the multiple regression analysis, the results here are consistent with previous analysis tools. BDES, ACES, and EAES don't have a significant effect on the reliability of internal audits. These results in fact prove that the internal audits tested are reliable and trustworthy and this trustworthiness is not affected by higher authorities. However, TMES has a significant influence on the reliability of internal audits. In any corporation, the information is all centralized by top management that supports other divisions with the information they acquire. Top management supports the internal audits by all documentations or information represented by management, thus, the reliability and basis of the information obtained relies on the management being reliable in the evidence supported to the internal audits (Office of the Auditor General of Canada, 2013).

Independent Variables: BDES, ACES, TMES, and EAES.

Dependent Variable: IAQS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	3.033	.614		4.940	.000
	BDES	-.021	.121	-.017	-.175	.862
1	ACES	.410	.111	.453	3.704	.000
	TMES	.102	.107	.109	.958	.340
	EAES	-.199	.074	-.278	-2.678	.009

Table 10: Multiple regression of corporate governance components with IAQS

Based on the multiple regression analysis, BDES and ACES had the same results tested in the previous analysis. Previously, TMES had a significant influence on IAQS and EAES didn't have a significant influence on IAQS. However, based on the results, TMES had no significant influence on the qualifications of internal audit staff, and external auditors had an influence on internal audit staff. After combining the four components together, the additional output to be highlighted is first the resulting significant level of external auditors' effectiveness on the qualification of internal audits' staff. The difference in the results could be explained that the corporation hires external auditors to work as internal audits, and the work between both parties is coordinated. This could be explained by the fact that external auditors assess and review the work of internal auditors (Public Oversight Board Staff, 2002). Thus, by reviewing the work done by internal auditors, external auditors can decide if the tasks performed are based on having qualified internal audits. In addition, external auditors identify internal auditors as being their assistant in the corporation helping them in maintaining internal control procedures (Felix et al., 1998). Therefore, having qualified internal auditors is highly demanded by external auditors. However, internal auditors perceive themselves as more significant contributors to the corporation than external auditors (Felix et al., 1998). Thus, the negative significant relationship could be explained by how both internal and external auditors perceive each other. Also, after combining the four components, top management effectiveness doesn't have a significant effect on the qualification of the internal audit tasks. This could be explained by the fact that internal audits works directly with audit committee and not with top management. Moreover, in a previously done survey, 70% of internal audit directors stated that the employment decisions by management should be approved by the audit committee (Steinberg & Bromilow, 2000). Also, stated in this survey that 49% of the audit committees had an ultimate authority in the corporation to evaluate the work of internal audits. Thus, it can be deduced that the audit committee has higher authority on internal auditors.

4.4 Backward Elimination Regression

Model 1: independent variables: EAES, TMES, BDES, ACES
Model 2: independent variables: EAES, TMES, ACES
Dependent Variable: IAES

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.652[a]	.425	.402	.18354
2	.649[b]	.421	.404	.18320

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.149	.303		10.378	.000
	BDES	.048	.060	.066	.799	.426
	ACES	.235	.055	.462	4.300	.000
	TMES	.140	.053	.263	2.646	.009
	EAES	-.163	.037	-.404	-4.431	.000
2	(Constant)	3.313	.224		14.808	.000
	ACES	.233	.055	.458	4.272	.000
	TMES	.141	.053	.266	2.679	.009
	EAES	-.152	.034	-.377	-4.460	.000

Table 18: Backward elimination multiple regression analysis of corporate governance components with IAES

Based on the overall model, since not all variables are significant the aim is to remove the non-significant variables so that the overall model becomes significant, and proving that the R^2 won't be affected. Thus, the combination of the rest of the components will provide a new significant overall model.

Based on the above table, after eliminating the independent variable: board of directors effectiveness score (BDES), the overall new model becomes significant with three independent variables: audit committee effectiveness score (ACES), top management effectiveness score (TMES), and external auditors effectiveness score (EAES).

R^2 is known as the coefficient of multiple determination for multiple regression. In the first model, 42.5% of internal audit effectiveness is explained by the four corporate components BDES, ACES, TMES, and EAES. However, in the second model, 42.1% of internal audit effectiveness is explained by the three left corporate components ACES, TMES, and EAES after eliminating the board of directors (BDES). Thus, by eliminating the non-significant independent variable this won't affect the R^2.

In conclusion, this test aims to prove that the multiple regression test done previously is valid as shown here. By removing the insignificant variable, the model R^2 won't be affected and thus a significant model will be presented.

Chapter V

CONCLUSION

This section includes: summary of the study, conclusion and recommendations, and future research.

5.1 Summary

This study was conducted in order to investigate the corporate governance components' influence on internal audit tasks. Each chapter aimed to examine the research topic. In order to perform this research, data was collected from different departments in order to investigate the influence of board of directors, audit committee, top management, and external auditors on the independence, reliability, and qualifications of internal audits. First, chapter I included a background for corporate governance and its importance to the corporation, then it included the reason why this study should be done by stating the increased concern on corporate governance. Moreover, chapter II included prior studies in order to come up with the hypotheses aimed to be tested. Several points of view were presented that negotiated the existence of corporate governance components' influence on internal audit tasks. Then, the methodology of the study was presented in chapter III. Here independent and dependent variables were identified, an explanation on the measurement techniques used was provided, and the size of the sample was stated. After that, chapter IV included the finding analysis and discussion. Here different tests were used to test the hypotheses. First, by using correlation matrix analysis, the results showed significant influence of corporate governance effectiveness on internal audits effectiveness. Also, a significant influence was detected between each component effect alone on the sub-measures of internal audits; particularly the audit committee and top management. In contrast, no significant influence was shown by both external auditors and board of directors on internal audits. Then, multiple regression analysis was used to test the four corporate components together. Here, different results were obtained due to the fact that in a real functional corporation, a single component cannot affect the internal audits alone, but the combination of different components together would provide more accurate results. In the multiple regression analysis, the board of directors' score remained insignificant with internal audits score, while external auditors score had a significant negative relationship with internal audits score. On the other hand, the audit committee remained significant; while top management score showed different results while performing the test with internal audits sub-measures. However, several reasons were stated to support the change in the results by undergoing different tests. Finally, a backward elimination test was performed to show that eliminating the insignificant component won't affect the overall statistical measure of the test.

5.2 Conclusion and Recommendations

Recently, the major focus of corporations shifted toward maintaining good governance by highlighting the role of each corporate governance component. The aim of this study was to show the effectiveness of board of directors, audit committee, top management, and external auditors on internal audits. Proving the existence of this influence would allow companies to direct their corporate governance in a better way. Based on the findings, in order to improve the corporate governance of companies first, the audit committee has a role to strengthen the effectiveness of internal audit by guarding their independence and should ensure that the internal audits should not function under the supervision of top management. For example, they should provide accurate results and prepare budget plans without the influence of top management. In addition, better corporate governance could be achieved if both the external audits and internal audits coordinated work between each other. This would save time and money to the company.

5.3 Future Research

Further research could be conducted to test the corporate governance components' effectiveness on internal audit tasks effectiveness. First, developing 5 questionnaires is necessary. Each group, the board of directors, audit committee, top management, external auditors, and internal audit unit would have a separate questionnaire which is essential to differentiate each group's point of view. Thus, this will provide more accuracy regarding the hypotheses aimed to be investigated. Also, examining the relationship between the four corporate governance components is essential to identify which component influences internal audit unit the most. This is crucial to enhance the coordination between groups which will enhance the organizational performance.

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Appendix "A"

Part I: General Questions: Please tick (✓) in the appropriate box for the answer.

1–Gender: - Male ☐ - Female ☐

2–Age: - less than 30 ☐ - from 30-40 ☐ - and more than 40 ☐

3–Degree Level: - Baccalaureate ☐ - Bachelor ☐ - Master degree ☐ - PhD ☐

4–Specialization: -Accounting and Auditing ☐ - Banking Science ☐

- Business Administration ☐ - another set ☐

5–Years of Experience: - less than 5 years ☐ - from 5 to 10 ☐ - more than 10 years ☐

6–Professional Certificate: -CFA ☐ -CPA ☐ -CIA ☐ -another set ☐ -no ☐

Part II: This part relates to the determinants of Corporate Governance effectiveness.

Please tick (✓) the box that reflects the degree of your agreement to all of the following:

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. The Board of Directors is formed of independent members.					
2. The Board members have sufficient knowledge and experience.					
3. The Board members have enough time to serve effectively.					
4. Four or more Board meeting is held per annum.					
5. The audit committee is formed of independent members.					
6. The Audit Committee comprises at least one member who is financially literate.					
7. The Audit Committee approves the internal audit plan and major changes to the plan.					
8. The Audit Committee reviews the internal audit reports.					
9. Audit committee appoints, evaluates the performance and dismisses the Head of Internal Audit.					
10. There is good collaboration of work between internal auditors and audit committee members.					
11. The internal control procedures as described in the policy procedures manuals are effective.					
12. The internal control procedures as described in the policy procedures manuals are actually applied.					
13. One of the Big 4 accounting firms is the external Auditor.					
14. There is good coordination of work between the internal and external auditors.					

Part III: This part relates to the quality effectiveness of the Internal Audit task.

Please tick (✓) the box that reflects the degree of your agreement to all of the following:

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. The head of internal audit has a functional reporting line to the Audit Committee Chairman.					
2. The head of internal audit has an administrative reporting line to the CEO.					
3. The Internal Audit plan and budget are prepared without the contribution of senior management.					
4. The head of internal audit meets privately with the board or audit committee chairperson without management attendance.					
5. The internal audit department has a formal strategy in the form of an audit charter.					
6. The Internal Audit function complies with Government Internal Audit Standards.					
7. Internal audit function reconsiders the boards' strategy and its directions to protect the interests of shareholders.					
8. Internal audit reports are sent in time to prevent fraud and illegal acts to the appropriate management level					
9. Internal auditors have complete access to records and people that will enable them to achieve the quality of the job.					
10. Internal Auditors have received adequate training on a continuing basis for them to carry out their duties.					
11. Internal auditors have the experience and expertise that assist them in achieving the quality of the job.					
12. The majority of the Internal Audit staff holds professional certifications.					
13. The Head of Internal Audit has the right skills and experience.					
14. The Head of Internal Audit brings rounded business experience to the job rather than coming straight form a pure auditing background.					