

# AN EMPIRICAL STUDY ON THE EFFECTIVENESS OF INTERNAL AUDIT IN CORPORATE GOVERNANCE

## Abstract

*One of the most important aspects in corporate governance is openness, tell the truth, pay attention to your Board, auditors, minority shareholders, high level of independence and transparent disclosure of material information. This article attempts to study the effectiveness of internal audit in corporate governance and concludes that both internal and external auditors must work together in achieving excellence of corporate governance.*



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## INTRODUCTION

**A**cademicians, practitioners, institutions, organisations, and governments started to focus more intensely on corporate administration as a method for staying away from the emergencies and disappointments that have tormented numerous organizations as of late. Interest on corporate administration has developed appreciably. Governance is beneficial to all parties involved in the financial sector and governance plays an important role in promoting investment in various sectors such as economic and administrative reforms, building investor confidence in financial statements, attracting and supporting foreign investment etc. The working capacity of the agency contributes significantly to the acceleration of economic growth.

## THE INGREDIENTS OF CORPORATE GOVERNANCE

### a. Justice and fairness

In corporate governance, it means respecting and

acknowledging all stakeholders' rights, especially minority shareholders.

### b. Transparency

One of the most important aspects in corporate governance is openness and more broadly, how to construct a structure that allows for a high level of independence while adhering to the authority of law and international standards such as precision, honesty, and openness.

## IMPORTANCE OF CORPORATE GOVERNANCE

Several factors such as the following ones emphasize the significance of good governance:-

1. Corruption in the financial and administrative departments of companies must be eliminated and not allowed to resurface.
2. From the highest levels of the company's management to its lowest-level employees, ensuring that all employees are treated fairly and impartially.
3. Error detection and prevention, regardless of whether the deviation is purposeful and/or inadvertent, as well as stopping it from continuing by applying advanced control systems.
4. Maximizing the benefits of the accounting and internal control systems and, the efficacy of expenditures, and connecting expenditures to output.
5. Ensuring that external auditors are effective, independent and not subject to Board of Directors or executive management pressure to make proper disclosure and ensure openness in financial statements.

## EMPIRICAL REVIEW

The internal audit function (IAF) of India's public sector was evaluated in a study by Asaolu, Adedokun, and Monday

(2020). For the study's primary goal, the researchers sought to discover what role the internal audit function plays in the public sector in India. Correlation analysis and multiple regression techniques were used to analyse the data acquired from a structured questionnaire.

Internal audit performance and its impact on corporate governance was investigated by Abdullah (2019). To determine internal audit's role in Malaysian public listed businesses' corporate governance, the study set out to examine how the audit is conducted in those firms. An online survey and in-person interviews were used to gather data for this study.

Other studies have looked at the audit function's role in promoting good corporate governance in Kenyan commercial banks, such as Changwony & Rotch (2015). The study's goal was to figure out what role internal audit plays in helping commercial banks in Kenya to have better corporate governance. Use of a stratified sampling strategy to select sample elements was employed in this investigation.

The Kwanza City Council in Tanzania was used as a case study by Nunda (2018). The study's main purpose was to determine the factors that lead to Tanzania's "internal audit function" not fostering strong "corporate governance".

## METHODOLOGY

### (i) Research Design

The research design used in this study was through surveys. Surveys were used because this was a primary data study. In order to get data from a wide range of people, survey design is essential.

### (ii) Methods of Data Collection and Analysis

The data obtained for this research were analyzed using percentages, tools, and standard deviations. Straight relapse and relationship were utilized to test the speculations. These hypotheses were developed to concentrate on the effect of inside reviewing on corporate administration in Rivers State Universities:

**H01:** "Financial audit does not significantly influence corporate governance effectiveness in universities in Rivers State".

**H02:** "Operational audit does not significantly influence corporate governance effectiveness in universities in Rivers State".

**H03:** "Compliance audit does not significantly influence corporate governance effectiveness in universities in Rivers State".

**H04:** "Government policies and technology do not significantly affect the relationship between internal audit and corporate governance effectiveness in universities in Rivers State".

### (iii) Model Specification

*Universities in Rivers State* looked at internal audit and the effectiveness of corporate governance using linear regression and correlation statistics. They also looked at how internal audit affected the effectiveness of corporate governance. This investigation used the following model as an example:

$$\text{CGE} = \beta_0 + \beta_1\text{FA} + \beta_2\text{OA} + \beta_3\text{CA} + \varepsilon$$

Where:

"CGE = Corporate Governance Effectiveness"

" $\beta_0, \beta_1, \beta_2, \beta_3$  = Regression coefficients"

"FA = Financial Audit"

"OA = Operational Audit"

"CA = Compliance Audit"

$\varepsilon$  = Error word

## DATA PRESENTATION, ANALYSIS AND DISCUSSION

### (i) Descriptive Statistics for Internal Audit

TABLE 1: DESCRIPTIVE STATISTICS FOR INTERNAL AUDIT

Proxies for Internal Audit	N	Mean	Std. Deviation
Financial Audit	90	2.705563	0.726949
Operational Audit	90	2.55555	0.686977
Compliance Audit	90	2.206357	0.543757

Source: Author's own calculations

It can be seen that 2.705563, 2.55555 and 2.20635 were the averages for the financial audit, operational audit, and compliance audit respectively. The financial audit standard deviation was 0.726949, the operational audit standard deviation was 0.686977, and the compliance audit standard deviation was 0.543757.

### (ii) Corporate Governance Effectiveness Descriptive statistics

TABLE 2: DETAILED STATISTICS OF CORPORATE GOVERNANCE IMPACT

Proxies for Corporate Governance Effectiveness	N	Mean	Std. Deviation
Governing Council Effectiveness	90	3.321	0.580952
Audit Committee Effectiveness	90	3.263486	0.585111
External Audit Effectiveness	90	3.35556	0.501988

Source: Author's own calculations

Each item's average exceeds the projected 2.5. (On

a four-point Likert Scale). The governing council's effectiveness is 3.321 (with a standard deviation of 0.580952), that of the audit committee is 3.263486, and the external audit's effectiveness is 3.35556. (with a standard deviation of 0.501988). These results suggest that the examined universities have improved corporate governance in line with best practices worldwide".

**(iii) Test of Hypotheses**

This study examined whether or not audit measures (financial, operational, and compliance) have an impact on the hypotheses put out in order to determine whether or not there is any link between internal audit and the efficacy of corporate governance (governing council, audit committee, and external audit effectiveness).

*Regression/Correlation Analysis of Financial Audit and Corporate Governance Effectiveness*

H<sub>01</sub>: Financial audit does not significantly influence corporate governance effectiveness in universities in Rivers State.

In Table 3, one can see how the test turned out.

**TABLE 3: "CORRELATION OUTPUT OF FINANCIAL AUDIT AND CORPORATE GOVERNANCE EFFECTIVENESS"**

**Correlations**

		FINANCIAL AUDIT	GOVERNING COUNCIL EFFECTIVENESS	AUDIT COMMITTEE EFFECTIVENESS	EXTERNAL AUDIT EFFECTIVENESS
FINANCIAL AUDIT	Pearson Correlation	1	.741*	.755*	.405*
	Sag. (2-tailed)		.000	.000	.006
	N	90	90	90	90
GOVERNING COUNCIL EFFECTIVENESS	Pearson Correlation	0.741*	1	0.787*	0.546*
	Sag. (2-tailed)	.000		.000	.000
	N	90	90	90	90
AUDIT COMMITTEE EFFECTIVENESS	Pearson Correlation	0.755*	0.787*	1	0.453*
	Sag. (2-tailed)	.000	.000		.002
	N	90	90	90	90
EXTERNAL AUDIT EFFECTIVENESS	Pearson Correlation	0.405*	0.546*	0.453*	1
	Sag. (2-tailed)	.006	.000	.002	
	N	90	90	90	90

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

Source: Author's own calculations

At a significance level of 5 per cent, Table 3 shows that financial audits and the effectiveness of the governing council are related by an R-squared value of 0.741. The effectiveness of the audit committee is shown by an R-squared value of 0.755 and the effectiveness of the external audit is shown by an R-squared value of 0.405. This suggests that financial audit and all corporate governance indicators have a positive linear connection. The results show that there is a strong correlation between financial audit and the effectiveness of the governing council and audit committee. However, there is not

much of correlation between financial audit and the effectiveness of external auditors.

R<sup>2</sup> for the link between financial audit and how well the governing council works is 0.549, 0.57 for the audit committee and 0.164 for external audit. The coefficient of determination demonstrates a 54.9 per cent link between financial audits and how well the governing council conducts its job (for financial audit and governing council effectiveness). Financial audit (done by the internal audit unit) affects 57 per cent of audit committee's effectiveness at

the institutions studied, whereas other variables affect 43 per cent. There's a 16.4 per cent link between the university's external audit and its internal financial audit. Other factors influence 83.6 per cent.

**CONCLUSIONS**

Corporate governance is necessary for the establishment of stringent control system that can aid in the betterment of economic units by reducing their exposure to risk. These hazards can be reduced by specifying the parties involved and allocating tasks and authorities among them.

Protecting shareholders' rights, preserving assets, and providing accurate information are all made possible by having an effective internal auditing committee. Therefore, internal auditors and the external auditors must work together in a cooperative manner; this is one of the basic foundations of excellent corporate governance. This is essential. **IMA**

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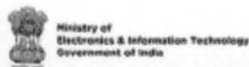
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### IT Initiative

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