THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE, INTERNAL AUDIT AND AUDIT COMMITTEE: EMPIRICAL EVIDENCE FROM GREECE

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Abstract

Internal audit has been acknowledged as the main driver of corporate disclosure which aims to increase the quality of financial information, to ensure the transparency in financial reporting and to increase the confidence between managers and shareholders. The need for developing strong governance structures has led many researchers to examine the new framework of corporate governance and to explore its relationship to the internal audit process. Regarding Greece, there is a lack of research evaluating the relationship between corporate governance and internal audit. This study examines the above relationship in companies listed in the Athens Stock Exchange. In the present research, internal audit is examined in terms of audit quality and the consulting role of internal audit, in order to highlight the new management-oriented and value adding scope of internal audit. Data was collected via a survey questionnaire methodology and was analyzed using regression analysis. The results show that corporate governance is positively associated to the consulting role of internal audit, to internal audit quality and to the audit committee.

Keywords: Corporate Governance, Internal Audit, Internal Audit Quality, Audit Committee, Greece

1. INTRODUCTION

The increasing need for transparency in corporate operations and financial reporting is of paramount importance for an organization in order to be successful at this unstable period for the economy. Consequently, internal audit and corporate governance have attracted much attention by authorities and researchers (Dewing and Russell, 2004). Corporate governance defines the corporate structure of an organization, the relationships and responsibilities of the various parts of the organization and ensures the transparency in these relationships. On the other hand, internal audit is considered as a tool for enhancing transparency, regarding financial information which is used by stakeholders of the organization. The recent corporate scandals (such as Enron), many of which are attributed to weak corporate governance structures, have brought into attention the need for examining and understanding the different aspects of corporate governance and its relationship to the organizational bodies which are responsible for the monitoring processes, such as the internal audit department and the audit committee. Building on the above, and in the light of the recent regulations published for corporate governance and internal audit, the conceptual framework of these two fields must be reviewed and the relationship between corporate governance, internal audit and audit committee must be examined in order for the critical points of this relationship to be highlighted.

Although there is a significant number of studies which examine the relationship between internal audit, corporate governance and audit committee, there is a lack of such a research concerning the Greek market (Drogalas et al., 2011). This is due to the fact that it is only recently that internal audit has begun to attract the attention of Greek companies and as a result there are still some critical factors which need to be identified and reviewed. There are studies that indicate the factors which improve corporate governance. In the majority of these studies, it is stated that there is a positive relationship between the internal audit and corporate governance (Paape et al., 2003; Krishnan, 2001; Suyono and Hariyando, 2012; Sarens and Abdolmohammadi, 2011) whereas some others raise doubts about this relationship (Regoliosi and d'Eri, 2012; Goodwin-Stewart and Kent, 2006). The present study tries to analyze and present the theoretical background and the recent changes in the fields of internal audit and corporate governance and also to examine the relationship between internal audit, corporate governance and audit committee by conducting a research via questionnaires in Greek firms listed in the Athens Stock Exchange.

2. LITERATURE REVIEW

2.1. Corporate Governance

Agency theory and the principal-agent problem highlight the importance of corporate governance for an organization because with the appropriate structures and policies of corporate governance, a better communication between management and ownership can be achieved and the interests of both parties can be aligned (Rustam, et al., 2013). Corporate governance can act as a tool for protecting investor's interests, provide a stable environment and contribute to the economic growth of an organization. Additionally, the implementation of an appropriate corporate governance structure reduces agency costs which are the result of the principal- agent problem. This is supported by Core et al., (1999) who state that organizations, which don't invest in corporate governance, have higher agency costs as their managers' personal interests are often not in line with the organization's interests.

Corporate governance is defined as a nexus of procedures, policies, laws and regulations which play important role in the way an organization is governed and controlled (Gstraunthaler, 2010). Moreover, it determines the relationships between management, ownership and other interested parties of the organization and sets corporate goals (Broni and Velentzas, 2012). The aim of corporate governance is to ensure that the organization will be directed under specific guidelines which will serve the interests of every party of the organization, including the board of directors, managers, employees, suppliers, customers and others stakeholders. Finally, it is important for the corporate governance structure of an organization to comply with each country's formal laws and regulations, the generally accepted accounting principles, the ethical standards and the cultural differences (Duhnfort, et al., 2008).

According to Broni and Velentzas (2012) corporate governance includes two different concepts. First, the long term (strategic) concept, which involves the relationship and communication between managers and shareholders in order to achieve a productive cooperation. Second, the financial concept which describes the relationship between the two parties, which is based on structures, rules and regulations, in order to achieve a high level of information disclosure and transparency in financial statements and therefore mutual confidence in their transactions. Additionally, there are five elements which must be taken into consideration when corporate governance is structured (Hart (1995). These elements are an organization's internal environment, such as long term strategic goals and human resources, the external environment, such as corporate social responsibility, relationship with suppliers and customers, and compliance to rules and regulations.

Depending on the country and the composition of the company's authoritative boards, two different models of corporate governance exist: the ''Anglo-American'' Model and the ''European Model'' In the first model there is a single board of directors, which is constituted of both executive and non-executive members who are chosen by the shareholders. Non-executive members are usually more than the executive members and form the audit committee, which is a board responsible for corporate governance matters. In the rest of Europe a two-tiered model of corporate governance prevails. According to this model there are two different boards; the Executive board, which is composed by executive members of the company, and the Supervisory board, which is composed by non-executive members who represent the shareholders and have similar rights and responsibilities to the audit committee (Broni and Velentzas, 2012).

The crucial importance of corporate governance is confirmed by increasing concern of authoritative bodies, which provide organizations with guidelines and regulations about corporate governance to which companies must adhere. The Organization for Economic Cooperation and Development (OECD) proposed in 2004 six principles concerning corporate governance. The first principle states that corporate governance must be built upon a framework of laws and regulations imposed by the authorities. It is emphasizes the need for protection of shareholders' rights as well as the equitable treatment of shareholders. Another issue that is highlighted is the role and the rights of stakeholders within the governance structure. Also, well-timed and legitimate disclosure of financial information and transparency in financial reporting are also a matter of concern, regarding corporate governance structure. Finally the role and the responsibilities of the board of directors and the control mechanisms for management and shareholders are considered of outmost importance (Robertson et al., 2013).

2.2. The consulting role of Internal Audit

Internal Audit has undergone a series of structural changes over the last years. The implementation of new rules and regulations concerning internal audit, the evolution of new technologies, the economic crisis and the need for more intensive and continuous auditing by companies, have resulted in many changes, not only in the process of internal audit but also in the role of internal auditors and the general scope of internal audit (Bekiaris, et al., 2013). In 2004, the Institute of Internal Auditors reviewed the definition, the meaning and the objectives of internal audit, in order to give directions to internal auditors. In the reviewed definition a more holistic and managerial approach is highlighted rather than the previous widely established perception that internal auditors are strictly restrained to financial control activities. In this new approach, the consulting role of internal audit, in line with strategic management, is emphasized. It is also stated that internal audit must add value to an organization and contribute to the achievement of corporate goals. Finally, the new expanded scope of internal audit focuses on the contribution of internal audit to risk management and corporate governance issues (Hass, et al., 2006).

Among the recent regulations that had an impact on internal audit is the Sarbanes-Oxley Act (SOX) (2002). The SOX imposed stricter rules concerning organizations' internal control systems and their evaluation. This has led companies to spend resources for the improvement of their internal control systems in order to comply with the new regulations (Agrawal, et al., 2006). According to a survey of PWC (2006), it is stated that almost half of USA companies' internal audit resources were used to meet SOX control requirements. This means that there is the need for companies to review their internal audit systems in order to allocate their resources in a way that contributes to the achievement of corporate goals.

Defining the reviewed scope of internal audit, Bou-Raad (2000) has stated that it is the most important function that provides the information required within an organization with respect to corporate governance matters. The fact that internal audit interacts with the other control bodies of an organization, as a process of monitoring, and that its consulting role adds value to an organization, has established internal audit as one of the most important factors that define and improve corporate governance structure. Thus it can be regarded as an independent process for an organization, the value of which can be measured as that of an "intangible asset" (Regoliosi and d'Eri, 2012). Summarizing, during this transition from the traditional internal audit approach to a more progressive approach, it can be stated that internal audit tends to be more management-oriented rather than financial-oriented. The contribution of the internal audit process to risk management practices of the company is another trend which has emerged after the recent changes. Generally, we can claim that internal audit tends to comply with corporate strategies and objectives instead of just dealing with transactions and complying with regulations (Lindow and Race, 2002).

The study of Paape et al. (2003) provides some indicative results about the perceptions of auditors concerning the relationship between corporate governance and internal audit. In this study, it is stated that 40% of the respondents believe that one of the most important factors in implementing internal audit is corporate governance. According to above research, 79% believes that changes in corporate governance will redefine the role and the responsibilities of internal audit while 93% believe that one of the most important objectives of internal audit is the harmonization with the company's policies rules and regulations.

Regarding internal audit in Greece, Drogalas et al. (2011) point out the absence of surveys examining the relationship between internal audit and corporate governance in Greek companies. The authors describe the relationship between internal audit and corporate governance by presenting the relevant literature and highlight the factors affecting this relationship. One of the findings is that internal audit has become more management-oriented than it was in the previous years. In this concept, it is stated that internal audit by providing the assurance and the consulting services, can contribute to efficient corporate governance in order to lead the company to managerial excellence and also to attract new investors for smaller firms.

In a more recent survey regarding the public sector in Greece, Drogalas et al. (2014) have examined the extent of internal audit's implementation in Greek Police departments and the value added to this public organization by the implementation of internal audit. The results generally indicated that the implementation of internal control successfully monitors organization's activities, protects its assets, prevents fraud, detect and correct errors and guarantees the accuracy of financial statements. Along those lines, the need of updating the internal audit framework in Greek public organizations and implementing more specific regulations is highlighted. According to the above, the first research hypothesis can be developed as follows:

H1: The Corporate Governance is positively associated with the consulting role of Internal Audit.

2.3. Internal Audit Quality

Academic research has examined several approaches in measuring the effectiveness of internal audit and defining the term "Internal Audit Quality". Due to the intangible nature of internal audit function, it is difficult for an organization to evaluate the quality of internal audit and to measure the contribution of audit service to a company (Regoliosi and d'Eri, 2012). However, taking into consideration the consulting role of internal audit and its contribution to corporate governance, it is important to analyze the different aspects of internal audit quality. DeAngelo (1981) defines audit quality by separating the internal audit activity into two stages; first, the auditor may detect an irregularity on the financial statements of an organization and second he may report this irregularity. In these terms, audit quality depends on the abilities of the internal auditor and the extent of the audit as well as on the level of auditor's independence, in order to be able to report the findings of the audit (O'Sullivan, 2000). Davidson and Neu (1993) in their definition of audit quality associate the quality of internal audit with the competences and the expertise of the auditor while Palmrose (1988) defines audit quality as the possibility that financial statements do not include irregularities after the completion of the audit function. From the auditor's point of view, the quality of audit can be measured in terms of compliance with accounting and auditing standards or can be evaluated by measuring the auditees' satisfaction (stakeholders and shareholders) (Al-Ajmi, 2009).

Many studies that have tried to identify and analyze the different factors that determine audit quality. Carcello et al. (1992) present 12 factors that are considered as determinants of audit quality, the most important of which are firm size, composition of the audit team, compliance with accounting standards, involvement of audit committee, auditor's personal responsibility, involvement of company's executive and compliance with the organizational needs. In another study, Eichenseher and Shields (1983) state that the quality of audit is the result of the interaction of 11 factors, according to financials managers' perceptions. The most important of these factors are moral standards, auditor's expertise, auditors' fees, technical competencies, employees' relationships in the organization, frequency and deadlines of audit team's meetings and communication within the audit team (Al-Ajmi, 2009). More specifically, concerning the quality of internal audit, Regoliosi and d'Eri (2012) identify some of the most important indicators of the effectiveness of internal audit departments. First, it is the hierarchical position of the internal auditor within the organization, as well as his level of independence, that can assure the effectiveness of the internal audit function. Second, experienced and skillful employees are also necessary for the internal audit department, in order to assess the audit techniques and to ensure the efficiency of the internal audit function. Also, a high ratio between the auditors and the total employees of the organization seems to be a crucial indicator for internal audit quality (Sarens and Abdolmohammadi, 2011). Additionally, formal methods of assessment of the audit procedure may be applied in an organization, such as Quality Assessment Review (QAR), or Key Performance Indicators or surveys among the company's personnel can be used. Another important indicator is feedback and comments provided by the auditees concerning the effectiveness of internal audit. Furthermore, with a view to the consulting and value-added role of internal audit, the percentage of time that is spent on consulting services must be taken into consideration in the assessment of internal audit quality.

In the study of Cohen et al. (2002), auditors as a part of the internal control system of a company, are considered as important actors in the corporate governance field. In the same study, the association between the audit process and the corporate governance is enhanced by the fact that weak corporate governance structures seems to cause a decrease in the quality of financial information reported and even to result in financial fraud. The above is also in consistence with Krishnan's study (2001) who finds that problems in internal audit procedures are related to weak governance structures.

Another conceptual study of Karagiorgos et al. (2010) reviews the conceptual framework of internal audit and corporate governance and the existing literature concerning these two rapidly developing fields. The authors indicate the most important elements of corporate governance to be the board of directors, the top management, the audit committee and external audit. Finally, the authors propose further research to examine the interaction between the above elements of corporate governance and the internal audit process.

Suyono and Hariyando (2012) in a more recent study examine the association of corporate governance with internal control, internal audit and organizational commitment. Their results show that internal control and internal audit have a positive significant relationship with good corporate governance. Moreover, in the study of Sarens and Abdolmohammadi (2011), it is shown that the size of companies' internal audit departments and therefore the internal audit plan, depends on the various elements of corporate governance, such as the obligation of the company having an internal audit department, the percentage of external members in the board of directors or the control environment. Regoliosi and d'Eri (2012) in their study tried to examine the relationship between the various elements of corporate governance and the quality of internal audit departments. The results of their survey partly confirm the relationship between the two fields, because, while some of the corporate governance elements seems to be positively affect internal audit quality, this relationship is not confirmed for all the variables of corporate governance. In line with the above study, Goodwin-Stewart and Kent (2006) do not find a strong support for the relationship between internal audit and "good" corporate governance. Building on the above, the following research question is developed:

H2: The Corporate Governance is positively associated with Internal Audit Quality.

2.4. Audit Committee

The audit committee is a subcommittee of the board of directors which plays a very important role in corporate governance and the internal audit procedure by monitoring managers' activities concerning financial disclosure (Sarens and Abdolmohammadi, 2011). According to a survey of the Canadian Institute of Chartered Accountants (CICA) in 1981, there are five aspects concerning the responsibilities and objectives of audit committees. First of all, the audit committee must help the board of directors in governance matters, especially those concerning financial reporting. The audit committee must also facilitate the communication and the cooperation between the board of directors and the external auditors while at the same time ensure the independence of external auditors in their audit work. Moreover, the audit committee must enhance the validity of financial disclosure and guarantee transparency in financial reporting. Finally it aims to strengthen the position of outside directors by improving the relationship and the communication between outside directors, company's directors, managers and auditors (Green, 1994).

In order to improve the efficiency of audit committees, KPMG has published a report which proposes five guiding principles for audit committees (KPMG, 2006). The first principle states that no specific structure and size of audit committee exists which can be considered effective for all organizations, but rather it depends on each company's needs. Moreover, the selection of the right members who constitute the audit committee is also a determinant factor of its effectiveness while monitoring and controlling are among the first priorities of the audit committee. Furthermore, the audit committees' monitoring procedures must ensure the transparency of financial reporting. Finally, the audit committee is obliged to promote communication between the external auditors and the company's board of directors and the audit committee itself (Al-Ajmi, 2009).

In addition the Sarbanes-Oxley act in 2002 published another six obligations for audit committees regarding the audit procedure and corporate governance. Concerning the composition of the audit committee, the Sarbanes-Oxley act states that it must be constituted exclusively by independent non executive members coming from the board of directors. Audit committee is also completely responsible for the selection and the monitoring of external auditors as well as for the audit fees. It also has the right, if needed, to ask the contribution of outside advisors. In addition, companies must provide to the audit committees the necessary economic resources in order to reach its objectives while the audit committee must be informed about the company's accounting policies and the auditing methods. Finally, as it is recommended by the Blue Ribbon Committee (1999), an annual report published by the audit committee must be included in the company's financial reports (Rezaee et al., 2003).

However, despite of this increasing concern, the published guidelines and regulations for the audit committees, Cohen et al., (2002) find that audit committees do not have the expertise to reach their objectives and to communicate effectively with the auditors and the board of directors. After the recent regulations, concerning the mandatory publication of reports, it was expected the audit committee to contribute even more to the improvement of corporate governance by facilitating and ensuring the transparency of financial reporting (Rezaee et al., 2003). However, there is no straightforward relationship between the constitution and activity of the audit committee and specific corporate governance structures. There is evidence that the interaction of audit committee with corporate governance characteristics and internal audit addresses some weaknesses in corporate governance. Nevertheless, the claim that the creation of audit committees will result in specific corporate governance strictures this cannot be generalized (Turley and Zaman, 2004).

On the other hand, there are a number of studies that recognize the contribution of the audit committee to the corporate governance. Knapp (1987) has highlighted the importance of the audit committee as a link between the auditors and corporate management. Abbott et al., (2000) conclude that an effective and independent audit committee can contribute in the improvement of financial disclosure quality. In other studies the determinants of the adoption of audit committees are investigated, such as Klein (2002b) who finds that the adoption of the audit committee depends on the elements associated with corporate governance. Finally, regarding the independence of the audit committee, it has been suggested that it is affected by the corporate governance structure, considering the management-oriented nature of the audit committee controls (Regoliosi and d'Eri, 2012). Thus, the following research hypothesis is developed:

H3: Corporate Governance is positively associated with the Audit Committee.

2.5. Model

Taking into consideration the above literature review, four variables are selected to be examined in the present research. The first is "Corporate Governance" which is the dependent variable, and three independent variables which are "Consulting role of Internal Audit", "Internal Audit Quality" and "Audit Committee". Consequently, three research hypotheses were developed for each one of the independent variables.

Multiple regression analysis was performed to estimate the magnitude of the effect of the "Consulting role of Internal Audit", "Internal Audit Quality" and "Audit Committee" on "Corporate Governance". The Ordinary least squares (OLS) regression model was:

$$CG = a + b_1 \, ConIA + b_2 \, IAQ + b_3 \, AC + e_i$$

The variables are defined below:

CG = Corporate Governance

ConIA = Consulting role of Internal Audit

IAQ = Internal Audit Quality

AC = Audit Committee

3. RESULTS AND DISCUSSION

3.1. General companies' information

General information about the companies and respondents, regarding company activity, staff number, the respondent's position in the company and years of internal audit departments' operation are presented on Table 1.

Table 1. General Information of companies

		Frequency	***Per cent***
Company activity	Commercial	21	27.6
	Industrial	7	9.2
	Industrial and Commercial	24	31.6
	Service	9	11.8
	Other	15	19.7
Company staff number	< 10	6	7.9
	10 – 50	9	11.8
	> 50	61	80.3
Your position in the company	Internal auditor	49	64.5
	Chief accountant manager	3	3.9
	Other	24	31.6
Years of establishing internal audit department in the company	< 3	3	3.9
	3 – 6	0	0
	> 7	73	96.1

Source: Field Survey, 2015

According to the above table, the majority of the companies which participated in the research have both industrial and commercial activities at a level of 31.6%. The 27.6% of the sample deals with exclusively commercial activity while there is a quite high percentage (19.7%) which stated another type of activity . The rest of the companies operate in the service activities sector (11.8%), and some of them belong exclusively to the industrial activity sector (9.2%). Regarding the company staff number, the vast majority of the companies (80.3%) occupy more than 50 employees while there is a 11.8% that occupies 10 to 50 people and another 7.9% with less than 10 employees. That can be explained, due to the fact that the sample was composed of firms which are listed in the Athens Stock Exchange.

Regarding the question about the respondents' position in the company, most of them (64.5%) are internal auditors, 3.9% are Chief accountant managers and 31.6% have another position in the company. Finally, 96.1% of the companies have established the internal audit department within the organization more than 7 years ago. Nevertheless, there is a 3.9% which have implemented an internal audit department in the last 3 years.

3.2. Descriptive Statistics

Regarding corporate governance which is the dependent variable of the model, it can be stated that the vast majority of the respondents believe that top management communicates the importance of integrity frequently and clearly within the company. They also consider top management to have established and clearly communicated the company's mission and objectives and the business strategy. Respondents also consider to a lesser degree that top management's strategies reduce the extent of risk for the board of directors and they also believe that top management in closely related to the board of directors, which is a fact that indicates "good" corporate governance structure. Our results are presented at table 2.

Table 2 shows the descriptive statistics for the dependent variable.

Table 2. Statements Regarding Corporate Governance

	Frequency Percent				
	1	*2*	*3*	*4*	*5*
1. Indicate in what extent is the connection of top management and the board of Directors close.	2 2.6%	5 6.6%	29 38.2%	32 42.1%	8 10.5%
2. Top management's strategies reduce the extent of risk for the board of directors	0 0%	7 9.2%	29 38.2%	28 36.8%	12 15.8%
3. Top management has established and clearly communicated the Company's mission, strategy and business objectives	0 0%	0 0%	34 44.7%	30 39.5%	12 15.8%
4. Top management frequently and clearly communicates the importance of integrity	0 0%	5 6.6%	8 10.5%	47 61.8%	16 21.1%

Source: Field Survey, 2015

Our results regarding the consulting role of internal audit within the company suggest that internal audit adds value to the organization, which means that the value-adding role of internal audit is clearly recognized by the respondents. Participants also verify that internal audit is defined within a wider governance framework and that is effectively communicated. Finally, regarding the contribution of internal audit to risk management, our survey results indicate that there is not yet a strong belief that internal audit has a consulting role concerning strategic management matters. The respective results are presented at table 3.

Table 3. Statements Regarding Consulting role of Internal Audit

	Frequency Percent				
	1	*2*	*3*	*4*	*5*
Internal Audit contributes to risk management	2 2.6%	5 6.6%	30 39.5%	36 47.4%	3 3.9%
Internal Audit has a consulting role in the company with a view to strategic management matters	5 6.6%	14 18.4%	17 22.4%	36 47.4%	4 5.3%
Internal Audit adds value to the organization	0 0%	3 3.9%	11 14.5%	35 46.1%	27 35.5%
The role of Internal Audit is defined within a wider governance framework and is effectively communicated.	0 0%	3 3.9%	15 19.7%	37 48.7%	21 27.6%

Source: Field Survey, 2015

Regarding internal audit quality it is considered that internal auditors' actions are in line with accounting and auditing standards while the fact that they are sufficiently educated and qualified is also confirmed. Participants' responses also indicate that internal auditors are quite independent. On the other hand, the belief that internal audit has the ability to provide recommendation for improvements in areas where opportunities and deficiencies are identified is not strongly supported by our respondents (Table 4).

Table 4. Statements Regarding Internal Audit Quality

	Frequency Percent				
	1	*2*	*3*	*4*	*5*
Internal audit provides recommendation for improvements in areas where opportunities and deficiencies are identified.	0 0%	9 11.8%	32 42.1%	22 28.9%	13 17.1%
Internal Auditors are sufficiently educated and qualified	0 0%	6 7.9%	15 19.7%	36 47.4%	19 25%
Internal Audit operation and actions comply with accounting and auditing standards	0 0%	0 0%	21 27.6%	39 51.3%	16 21.1%
Internal Auditors act in a high level of independence	0 0%	3 3.9%	24 31.6%	30 39.5%	19 25%

Source: Field Survey, 2015

Finally, the analysis of our results reveals that our respondent clearly believe that the members of the audit committee acquire financial knowledge. Moreover, the Audit Committee in most occasions seems to publish a report which is included in annual financial statements. The other two statements report lower means of frequencies. The participants argue that Audit Committee meet quite often. Finally, the contribution of the Audit Committee to the communication between auditors and the board of directors presents the lowest mean of frequency. Our results are presented at table 5.

Table 5. Statements Regarding Audit Committee

	Frequency Percent				
	1	***2***	***3***	***4***	***5***
Audit committee contributes to the communication between auditors and the board of directors	2 2.6%	5 6.6%	29 38.2%	36 47.4%	4 5.3%
The members of the audit committee acquire financial knowledge	0 0%	3 3.9%	18 23.7%	34 44.7%	21 27.6%
The audit committee's meetings are often	3 3.9%	6 7.9%	27 35.5%	28 36.8%	12 15.8%
Audit committee publishes a report which is included in the annual financial statements	0 0%	4 5.3%	30 39.5%	30 39.5%	12 15.8%

Source: Field Survey, 2015

3.3. Regression Analysis

Pearson correlation matrix is provided for dependent and independent variables in Table 6. From the Table, it is observed that there is a significant and positive correlation (r=0.563) between "Corporate Governance" and "Consulting role of Internal Audit" at p<0.01, a significant and positive correlation (r=0.572) between "Corporate Governance" and "Internal Audit Quality" at p<0.01 and a significant and positive correlation (r=0.582) between "Corporate Governance" and "Audit Committee".

Table 6. Correlation Matrix

	CG	***ConIA***	***IAQ***	***AC***
CG	1			
ConIA	0.563**	1		
IAQ	0.572**	0.477**	1	
AC	0.585**	0.636**	0.528**	1

***. Correlation is significant at the 0.01 level*
Source: Field Survey, 2015

Table 7 reports the results of the regression analysis. From the Table, it is indicated that the overall model is significant (F=21.524, sig. F=0.000, p < 0.05). Regarding the first hypothesis, the results indicate that there is a positive and significant association between "Corporate Governance" and "Consulting role of Internal Audit" (b1=0.212, p=0.033 < .05). Thus H1 is strongly supported.

Similarly, there is a positive and significant relationship between "Corporate Governance" and "Internal Audit Quality" (b2=0.217, p=0.003), suggesting that H2 is accepted.

Finally, the third hypothesis relates to Audit Committee. In this case, the regression analysis shows a positive and significant association between "Audit Committee" and "Corporate Governance" (b4=0.216, p=0.030). Thus, H4 is strongly supported.

Table 7. Regression Analysis

Variables	***Coeff.***	***Value***	***S.E.***	***T***	***p-value***
Constant	b_0	5.180	1.226	4.227	0.000
ConIA	b_1	0.212	0.098	2.170	0.033
IAQ	b_2	0.217	0.071	3.075	0.003
AC	b_3	0.216	0.098	2.214	0.030
R^2=0.473; Adjusted R^2=0.451; F=21.524; p=0.000					

Source: Field Survey, 2015

4. CONCLUSION

Internal audit is one of the most important functions of an organization because it is considered as a valuable tool for increasing the financial information quality and ensuring the validity of financial reporting. At the same time, in developing a strong corporate governance structure, according to the agency theory, it is important to alleviate the possible conflicts of interests between management and company's shareholders which is caused by the asymmetry of financial information between these two parties. This asymmetry of information can be handled with the contribution of an effective and independent internal audit department which provides the necessary financial information to both managers and shareholders in order to improve the level of confidence between each other. The consulting role of internal audit, its new management-oriented scope and the fact that it adds value to the organization, as it is stated in the Sarbanes-Oxley Act (2002), enhance the role of internal audit in corporate governance matters and makes it an important factor in developing a strong governance structure. Furthermore, the audit committee seems to play a very important role in this relationship because it can be considered as a link between the internal audit function and the corporate governance mechanisms. Some of the most important responsibilities of an independent and effective audit committee is to participate in the audit planning and to monitor the audit work and also to monitor the activity of the board of directors, which means that it has an impact on defining corporate governance structures.

Regarding the results of the present research, participants' responses showed that all of the four variables of the model are evaluated positively. More specifically, the respondents evaluated positively the majority of the determinant factors used in order to assess the four variables. Furthermore, it is established that internal audit adds value to an organization and the role of internal audit is defined in a wider governance framework within the company in order to serve corporate governance's goals and objectives. The above two statements are evaluated with the higher positive frequencies of all the other statements. On the other hand, the consulting role of internal audit with view to strategic management matters showed the lowest positive frequency which means that the consulting role of internal audit should attract more attention from auditors and managers in order to comply with management strategies.

In addition, our findings reveal that corporate governance is significantly and positively correlated to all three independent variables. Trying to analyze the three variables associated with corporate governance, the most significant appears to be the audit committee, followed by internal audit quality while the variable which appears to have the lowest connection to corporate governance is the consulting role of internal audit. This occurs mainly because the management-oriented scope of internal audit is a quite recent approach and companies may need more time in order to reform their internal audit procedures and to gain the benefits from the consulting role of internal audit. Another interesting finding is that the highest positive association amongst all four variables is detected between audit committee and consulting role of internal audit. This indicates that the management-oriented role of internal audit contributes to the actions of the audit committee.

Finally, the results of this research are in line with existing results in academic literature. Regarding the relationship between corporate governance and audit committee, the results of this study show that they have the highest positive association and this is in line with the principles and guidelines provided by the Sarbanes-Oxley act (2002) and KPMG (2006). In addition this positive association between corporate governance and audit committee is confirmed by previous research (Sarens and Abdolmohammadi, 2011, Knapp, 1987, Abbott et al., 2000, Regoliosi and d'Eri, 2012). On the other hand there are studies (Cohen et al., 2002, Turley and Zaman, 2004) which have shown no straightforward association between these two variables. Regarding the relationship between internal audit quality and corporate governance, most of previous academic research (Sarens and Abdolmohammadi, 2011, Krishnan, 2001, Suyono and Hariyando, 2012, Cohen et al., 2002) is also in line with the results of our study. Finally, the results concerning the consulting role of internal audit comply both with the regulations of Sarbanes-Oxley Act (2002) and are in line with existing literature (Hass et al., 2006, Drogalas et al., 2014, Paape et al. 2003, Bou-Raad 2000).

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