

IMPLICATIONS OF INTERNAL AUDIT EFFECTIVENESS ON CORPORATE GOVERNANCE: RESEARCH AGENDA

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Abstract

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This paper aims to use theoretical literature to develop propositions and suggest a research agenda on the implications of internal audit (IA) on corporate governance (CG). The paper uses institutional theory and Marx's theory of the circuit of industrial capital to develop theoretical and justifiable propositions and highlight influential research agenda. The key variables are identified and operationalization issues are discussed. To demonstrate the relationship between CG and IA, researchers used theories such as institutional theory, agency theory, stewardship theory, and resource dependence theory (Tripathi, 2019; Činčalová & Hedija, 2020). The existing literature does not offer norms for IA effectiveness. We claim that a positive relationship between IA compliance with standards and CG could be used to assess IA performance. It is high time that the IA should be given consideration as a service to the board, and the IA should be made independent of the top management. Studies in settings where IA is well-developed and in different contexts, similar to Fiji, where IA is relatively at an early stage of development, could provide valuable insights.

Keywords: Internal Auditing, Corporate Governance, Organizational Performance

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1. INTRODUCTION

The paper uses institutional theory and Marx's theory to develop propositions for future studies. This paper aims to examine the implications of internal audit (IA) on corporate governance (CG) in Fijian organizations. The anti-corruption campaign by the Fijian government and the establishment of the Fiji Independent Commission Against Corruption (FICAC) on April 4, 2007 to examine illegal or corrupt practices in Fiji provided the primary motivation for this study. The mission statement of FICAC states that the organization aims to combat corruption successfully so that the organization can

promote transparency and accountability. Moreover, the organization has a zero-tolerance policy against corruption, which will enable the organization to set the basis for good governance and promote sustainable development for all citizens of Fiji (FICAC, n.d.). The main agenda for FICAC's establishment is to weed out corruption in the public sector. Arvanitidou, Konstantinidou, Papadopoulos, and Xanthi (2009) and Yassin, Chanem, and Rustom (2011) suggested that IA prevents corruption and supports good governance practices, providing a clear study focus.

Studies by Sarens (2009), and Cooper, Leung, and Wong (2006), where the function of IA role has

changed from financial oriented to internal controls (ICs) and risk assessment provides further motivation for the study (Coram, Ferguson, & Moroney, 2008; Law, 2011) on the crucial role that internal auditing plays in detecting and self-reporting fraud and the greater likelihood of fraud in developing countries calls for further research on IA's, controls, and CG.

In 1941 Institute of Internal Auditors (IIA) was formed, which traced IA as a discipline. Victor Z. Brink published the first book on internal auditing, namely "*Modern Internal Auditing*", in 1942 (Moeller, 2005). It indicates that the IA profession has grown globally under the IIA. The Institute has branches in many countries, and it manages its certification and examination across the globe. Some of the countries where IIA established branches are Saudi Arabia (Al-Twaijry, Brierley, & Gwilliam, 2004), 1982 and 1996 Ethiopia (Mihret, James, & Mula, 2009), 1997 and 2008 Fiji (Prasad & James, 2018). Fiji is the only Pacific Island country affiliated with the Global body. Other countries which had similar institutions are Australia, New Zealand, and Papua New Guinea. IIA in Fiji, in March 2012, became a member of the Asian Confederation of Institute of Internal Auditors (ACIIA) together with 15 other countries in the Asia-Pacific region that have IA institutes.

The function of IA has progressed from assurance-focused service to consulting-oriented service, which is an essential part of IA function. Likewise, under the current model, IA works together with management to add value to the organization (Goodwin-Stewart & Kent, 2006; Mat Zain, 2005; Moeller, 2004, 2005; Yee, Sujan, James, & Leung, 2008, Ma'ayan & Carmeli, 2016; Dzomira, 2020). According to the Institute of Internal Auditors [IIA] (n.d.), the definition of IA indicates that IA is an independent, objective assurance and consulting activity planned in a structured manner that will create value for the organization and further enhance business performance and operation. By applying a systematic and controlled strategy to review and improve the efficacy of risk management, quality control, and governance processes, IA assists an organization in achieving its goals. It is visible from the definition of IA that the core function is to add value to the organization by providing several services to the organization, including assurance and operational performance audit. Together with it is to provide consultation service to management in various areas.

The IA best monitors the assessment and evaluation of all activities within the organization. Internal auditors also need to be independent like external auditors. IA serves its role by preventing corruption and supporting good governance practices (Arvanitidou et al., 2009). Similar findings are by Yassin et al. (2011). The circumstances of IA efficacy appear to have yet to be extensively investigated. Future research on IA efficacy and associated concerns has been urged by certain academics. For example, Goodwin-Stewart and Kent (2006) looked into the differences in IA procedures between government and private entities. Mihret, James, and Mula (2010) suggested the need to investigate antecedents of IA effectiveness. Arena and Azzone's (2009) study provided evidence that IA

effectiveness increases when the number of internal auditors outnumbers the number of workers. Arena, Arnaboldi, and Azzone (2006) and Arena and Azzone (2009) investigated IA in Italian enterprises using institutional theory. Arena et al. (2006) focused on how stock exchange laws exert coercive isomorphic pressure on the growth of IA. The authors identified and explained the characteristics of IA, activities, and various reporting levels within the institutional setting in which companies operate. Arena et al. (2006) described that IA succumbs to institutional pressure to focus on a particular audit trial. They indicated that coercive pressure leads to financial audit focus and argue that the factors affecting the developed IA in the Italian stock market are exchange rule and regulation sustainability.

Prior research shows that the success of IA is tied to country-level and organization-specific variables that exist in an IA context (Al-Twaijry et al., 2004; Arena et al., 2006; Mihret & Woldeyohannis, 2008; Yee et al., 2008). This paper presents a theoretical framework for researching IA based on institutional theory and Karl Marx's concept of the industrial capital circuit. It then gives recommendations on how IA effectiveness and CG are related.

The rest of the paper is structured as follows. Section 2 surveys the relevant literature and covers institutional theory and Marx's theory of the industrial capital circuit. Section 3 analyses the methodology used to research the implications of IA effectiveness on CG. Section 4 provides evidence of IA effectiveness, conceptual framework, and prepositions. In accordance with the notions outlined in the conceptual framework of the study, Section 5 discusses archival analysis and interview evidence. Section 6 concludes the paper.

2. LITERATURE REVIEW AND FRAMEWORK

Craig and Cooper (1983) conducted the first empirical on the role of IA in the Asia-Pacific region. Research conducted in Australia indicated that there were misconceptions about the duties of internal auditors as well as what their supervisors thought what internal auditors have done. The CEOs of the organization have high expectations from internal auditors; they believe internal auditors can play a vital role in the organization's success rather than just performing traditional financial audit work.

Cooper, Leung, and Mathews (1996) conducted and published the first research on benchmarking internal auditing practice in the Asia-Pacific region. The study revealed that the CEO of Australia and Malaysia share the same vision of a positive benchmark. Malaysian CEOs had a favorable view towards IA and regarded that independent verification of the organization's efficient operation, IA is used. CEOs in Hong Kong, on the other hand, were more worried about IA resources committed to the evaluation of internal controls.

Van Peurseem (2004) conducted most studies on what role internal auditors play in New Zealand. The study revealed that public practice and experienced auditors might have more significant authority over management and accounting and accountancy — trained and qualified auditors enjoy

more excellent status emanating from their membership with professional accounting bodies. Internal auditors are not in a good position to debate with management since they will prefer the option that is best for the employer and management's job.

Internal audit (IA) and corporate governance (CG) are two terms that are often used interchangeably and have served as the foundation for several business models. The relationship between CG and internal audit demonstrated in prior research shows that the success of IA is tied to country-level and organization-specific variables that exist in an IA context (Al-Twaijry et al., 2004; Arena et al., 2006; Mihret & Woldeyohannis, 2008; Yee et al., 2008). This paper presents a theoretical framework for researching IA based on institutional theory and Karl Marx's concept of the industrial capital circuit. It then gives recommendations on how IA effectiveness and CG are related.

Dzikrullah, Harymawan, and Ratri (2020), researched listed companies trading with Indonesia Stock Exchange. They examined the hypothesis, by making 722 observations from the listed companies for the past 2 periods that is from 2016 to 2017. The technique that was used to analyze the data was ordinary least square (OLS) regression. It was identified that one of the key roles of internal audit is the scope of internal audit teams, and the number of internal auditors is employed will have a significant impact on the relationship with the scale of external auditor fees, audit quality, and companies' desire to hire big-name auditors (Big 4).

Ma'ayan and Carmelli (2016) developed and tested a model that looks at how top-level people and internal auditors may promote internal audit learning and increase apparent performance. The authors concluded that senior management's support for internal audits, together with the auditor's abilities, resources, and behaviors, encouraged audit learning and helped audited units enhance ethicality, efficiency, and effectiveness in firms.

Dzomira (2020) informed about CG and the efficiency of audit committees and IA units in South Africa's public sector, based on stakeholder theory and qualitative content analysis. The findings suggested that audit committees and internal audit functions in the public sector practice excellent CG. Overall, organizations can increase their organizational value by implementing excellent CG while also implementing corporate social responsibility (CSR) disclosures that balance internal and external objectives (Worokinasih & Zaini, 2020).

It is visible from past literature that contextual factors significantly shape IA practice. The central focus of the literature was to examine how contextual factors influence the adoption of IA. Exploring the implications of these elements and how they can affect the scope of IA effectiveness would be a natural next step.

2.1. Theoretical perspectives of study

In addition, some assumptions in neoclassical economic theories limit the theories' applicability. The theories, for example, assume a mature market economy and a massive number of activities (Asechemie, 1997). The complexity of the transaction

and market and the importance of transition will differ across the countries depending on the economic growth that has taken place (Reed, 2002). This factor affects the limits of theories to perform research on IA in a diverse setting. Furthermore, in neoclassical economic theories, market equilibrium is a central idea. Other ideas, such as the Marxist approach, do not accept equilibrium (Hula, 1984). Another basic neoclassical economics assumption is that individuals' pursuit drives organizational phenomena to maximize self-interest. Institutional theory and Marxism critique this notion (Hula, 1984) and they believe that individuals' behavior cannot subtract from the social setting in which the incident has occurred. Hence, neoclassical economic models may not be able to adequately explain IA and IC development and operation in varied backgrounds.

The institutional theory clarifies how organizational settings and procedures change due to changes introduced by institutional pressure. According to institutional theorists, organizations are part of organization members, and it is several interrelated organizations or industries. This relationship depicted how some organizations do influence other organizations. Barley and Tolbert (1997) stated that institutions are historical accretions of previous practices and understandings that set conditions for actions. Giddens (1984) mentioned that structures are guidelines and resources that facilitate the social system's functioning. The term "structures" was coined by DiMaggio and Powell (1983) to describe the interaction between institutions and individual organizations. Giddens (1984) explained that structures are essential guidelines and resources that enable social system operations. DiMaggio and Powell (1983) implemented the notion of structures to show the effect on societies and individual organizations.

Hinings and Greenwood (1988) explained that institutional norms use various factors such as appropriate domain principles of organizing and evaluating criteria. The conformism to standards is by normative, coercive, and mimetic processes (DiMaggio & Powell, 1983). Therefore, values and beliefs outside the organization have a significant impact when determining the organization's norms. Organizations follow the rules and regulations to increase their legitimacy, resources, and long-term sustainability apart from improving efficiency (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). It can be a step toward socialization, which relates to how everyday life becomes codified, formalized, and institutionalized, granting approval and making alternative procedures creditable (Meyer & Rowan, 1977). DiMaggio and Powell (1983) revealed three sources of isomorphic pressure: normative, mimetic, and coercive. Coercive isomorphism becomes an external force applied to a business or organization by a third party with relative authority and power to formally and informally influence results (DiMaggio & Powell, 1983; Fogarty, 1992). On the same note, organizations can recognize an independent specialist who can report creditable, reliable, and relevant information to financial statement users (Maroun & van Zijl, 2016). Due to coercive isomorphism, there will be a less explicit compulsion to comply with current corporate

reporting standards (Meyer & Rowan, 1977; Atkins, Solomon, Norton, & Joseph, 2015).

The institutional theory sees that most organizations pursuing business within the same line of operation will adopt the same structure, behavior, and business activities (Shonk & Bravo, 2010). DiMaggio and Powell (1983) surveyed to find out why business operations of similar nature turn to adopt the same principles, how the organization responds to sustainability and the environment, and the difficulties business faces when it comes to the development of policies and procedures. Kostova and Roth (2002) defined an organizational field as socially adequate systems and behavior and organization pattern designs. DiMaggio and Powell (1983) described the overall managerial field as a business that engages in the creation of institutional areas: major suppliers, consumers, resources, regulatory and standard-setting bodies, and other entities which operate in the same line. Hinings and Greenwood (1988) stated that the institutional environment limits organizations to acceptable organization policy towards the environment and bounds the organizational forms available within the organization.

2.2. Marx's theory of the circuit of industrial capital

Rob Bryer applies Marx's (1978) theory of the circuit of industrial capital, as articulated in the first chapter of Volume 2 of "*Capital*", to accounting (Bryer, 1999a, 1999b, 2006a, 2006b). The author indicated the investor pursuit of surplus value from investment and explained what role accounting and accountability play in that area. According to Marx, the aim of capitalist production is to "valorization" capital, and this means that the objective is to increase capital by having surplus profit continuously. Capitalists create surplus profit by buying commodities and supplies, transforming them into other products, and selling them for a higher value. Marx depicts this process as an industrial capital circuit: $M-C-M'$, where M denotes the initial investment, C denotes the commodities acquired as input to production, and M' is the profit earned from the sale of the goods created. $M-C \{MP, LP\} \dots (P) \dots C'-M' = M + \Delta M$ is the enlarged version of this simple circuit. The means of production (MP) and labor power (LP) are the two commodities purchased as inputs. This indicates that production and labor power required in the manufacturing process (P) to make the new commodities (C') were sold for a higher price (M') than the capital invested (M). The difference between M' and M (that is, ΔM) is a surplus-value (profit) that the valorization process strives to optimize on a constant basis (Foley, 1986).

Bryer (2006a) explained what roles accounting plays in the labor control process, and it used the concept of "formal" and "real" subsumption of labor; the same idea was justified by Marx (1976, Appendix to Volume 1). In the early stages of capitalism, formal subsumption of labor is suggested, whereas real subsumption is associated with advanced capitalism. According to Bryer (2006b), capital subsumed labor is exclusively responsible for the means of production of commodities. Real subsumption, on the other hand, holds the rate of return on capital utilized responsible for excess profit creation or the use of capital to generate new capital, just as it does in

advanced capitalism (Bryer, 2006a). Bryer (2006a) also explained that the organization needs to have an adequate accounting control system to ensure transparency and accountability in the value-adding process. The author mentioned that financial accounting aims to demonstrate accountability and transparency of top-level administration to the capitalist.

In contrast, the aim of management accounting aims to demonstrate accountability and transparency of the workforce to management. From this perspective, it is an essential element that influences labor organizations to benefit from IA in two ways. In audits and performance/operational audits, it gives traditional assurance. Assurance audits ensure that abnormalities caused by mistakes or fraud are prevented and detected, whereas operational/performance audits help to improve the economy, efficiency, and effectiveness (Al-Twajjry et al., 2004).

IA is correctly included in the CG process to assist the concern of stakeholders. It assists in offering consultation services to enhance efficiency and maximum use of resources (Al-Twajjry et al., 2004; Yee et al., 2008). In this way, IA will ensure that it will assist management in increasing return on assets (ROA) in business and IA also enhances the productivity and effectiveness of public sector organizations. From a Marxist viewpoint, IA arguably facilitates a critical function to maximize ROA and ensures that society can achieve the desired goals, such as eliminating fraud, and corruption and minimizing wastage, and reduction of capital. Yee et al. (2008) agree with a notion and have accepted a predominantly Marxist economic theory perspective in their research to identify the role and effectiveness of IA in Singapore. The authors mentioned the importance of IA in preventing wastage and minimizing corruption and increasing efficiency. In Volume 3 of "*Capital*" (Marx, 1981), Marx commented that an inefficient business would notice that they will see a reduction in the capital during the crisis. Therefore, internal auditing enables firms to remain competitive and increase return on capital. Through its consulting management services, the vital IA permits a community to divert capital into specific areas where it can produce a reasonable rate of return rather than squandering it.

2.3. Linking institutional theory and Marx's theory

The merging of the two theories allows for the consideration of both social and economic components of institutional dynamics, as evidently anticipated in institutional theory (Barley & Tolbert, 1997). Marx's theory is used in the study work to better comprehend the economic motivations behind organizational phenomena. The institutional approach seeks to understand organizational dynamics' social elements. As a result, it is critical to evaluate the two theories' compatibility when they are combined. These ideas have similar foundations since they are based on political economics. This genesis allows researchers to investigate organizational phenomena in a variety of social, political, and economic contexts (Deegan, 2006). One of the roots of institutional theory can be found in Marxist thought (Scott, 2013). Apart from the general similarity of the two views, the whole idea is

why both approaches are employed together to strengthen each other's opinions.

Marx's perspective, as utilized in this study, underlines the economic dimensions of organizational processes. In this strategy, however, the role of institutional factors is not ruled out. "The quest of surplus-value helped the economic mode of production give way to semi-capitalist forms, and semi-capitalism to fully-fledged capitalism" (Marx, as cited in Harman, 1998) writes at a societal level. Men alter their style of production when they get new productive forces, and when they change their method of production, and their way of earning a living, they change all of their public relations, according to Marx, as cited in Harman (1998). Furthermore, Marx's overall perspective of societal developments, as well as his concept of a capitalist organization, focuses on organizational-level dynamics. Marx's microeconomic viewpoint does not rule out the social and cultural influences on organizations (Foley, 1986). This viewpoint differs from the assumption that things will emerge regardless of historical circumstances. Marx considers the relationships he is analyzing to be in perpetual flux, rather than static elements undergoing some reconfiguration. As a result, Marx's goal is to grasp the consistencies that regulate the differences in distinct social formations rather than to declare general principles that explain human and social interaction.

Marx's approach takes into account the historical and social dimensions of variations in organizational phenomena. Whereas institutional theory emphasizes the role of historical and social dynamics in the formation of institutions (Barley & Tolbert, 1997). It is necessary to understand the relation between Marx's ideas of "young" and "mature" to appreciate Marx's theory. Foley (1986), on the other hand, contends that rather than this form of division, Marx's ideas should be framed in a single frame.

Marx's theory may detect this logical feature of organizational phenomena while allowing for the influence of social factors. Owners are the prominent actors who influence decision-making on how the organization will perform and adopt strategies. As a result, combining Marx's and institutional theories allows for a more holistic view of IA as a component of organizational structures and sheds light on the relationship between IA and organizational goal achievement.

This idea suggests that institutional theory and Marx's theory arguments can apprise IC and IA effectiveness studies. With this in mind, the current work leverages these theories to construct research proposals.

The paper synthesizes pertinent internal audit literature using institutional theory and Karl Marx's idea of the circuit of industrial capital to create theoretically justified assertions and highlight an operational research goal.

Overall, the literature shows that context considerations can influence IA techniques. The majority of the research has focused on exactly how these characteristics impact IA adoption. A logical next move may be to consider the consequences of these factors and how they interact to shape the scope of internal audit effectiveness. As a result, the following propositions are worth studying, as they are consistent with institutional theory reasoning.

P1: The pattern of contextual factors and their connections shape the extent of internal audit effectiveness.

P2: Internal audit effectiveness differs systematically between the private sector and public-sector organizations.

P3: Managers of large organizations will appreciate the support of internal audits for complex settings and thus establish effective internal audit departments.

P4: Managers of organizations exposed to high risk will significantly seek internal audit support and thus establish effective internal audit departments.

P5: The attributes of the linkage between internal and external audits can promote or constrain internal audit effectiveness.

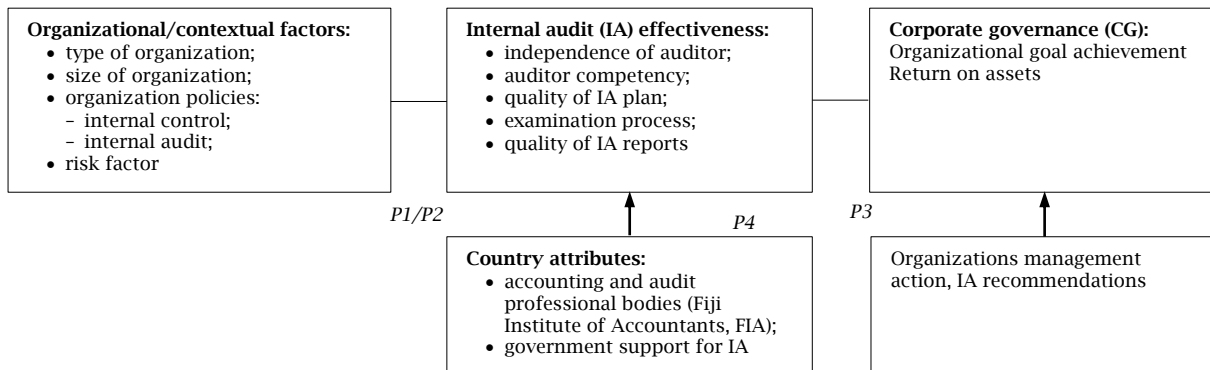
3. RESEARCH METHODOLOGY

This study enables using multiple approaches, theories, data types, and sources. Thus, the IA profession and the nature of IA activity should be investigated further. IA is still on its way towards professionalization on account of the discretionary idea of the requirement for affirmation (Yapa, 1999), willful nature of compliance with IA principles, absence of restrictive authority, and to a great extent, short tenure of internal audit staff (O'Regan, 2001). Therefore, it was felt that the research agenda and propositions could contribute helpful bits of knowledge by utilizing adaptable methodologies. Institutional Theory examines how contextual influences impact sway on IA effectiveness. In particular, the theory clarifies how coercive, mimetic, and normative pressures affect factors that shape the degree of IA effectiveness. Marx's theory of the circuit of industrial capital explains the commitment that IA could make to organizational goal accomplishment, taking ROA as a proxy. This theory demonstrates that value creates in the production activity. Subsequently, the thought of value-adding IA fits in this conceptual framework.

The data were collected using a mixed-method based on 27 usable questionnaires from internal auditing managers, and 13 interviews were conducted. In addition, questionnaires were distributed to 5 partners and 11 senior auditors of audit firms. Eight (8) interviews were conducted with some of them to ascertain their perceptions of internal auditing. Their study included the following independent variables: 1) *independence of auditor*, 2) *auditor competency*, 3) *quality of internal audit plan*, 4) *examination process*, and 5) *quality of internal audit reports*. The findings show that internal auditing in the Fijian private companies is less developed than the public companies. Internal auditing was primarily focused on compliance auditing rather than performance auditing, due to a lack of resources and skilled personnel, as well as constraints on their degree of independence. The findings also revealed that few policies are implemented as a result of internal auditing recommendations. Furthermore, the authors suggest that more research is needed to accurately assess internal effectiveness because the factors used in this study may have acted to moderate the value of internal auditing.

The following conceptual model shows how IA affects CG.

Figure 1. Conceptual model of study



Source: Authors' elaboration.

The theory of the circuit of industrial capital describes investors' pursuit of surplus-value' from the capital as well as the role of control mechanisms designed to ensure and further that purpose (Bryer, 1999a, 1999b, 2006; Yee et al., 2008) Marx's theory of the circuit of industrial capital (Marx, 1978). IA's role in organizations as a compliance-based control mechanism and value-adding service is explained by this notion. As a result, an increase in the ROA demonstrates the success of internal auditing. Through operational auditing, assisting in risk management (Spira & Page, 2003), and minimizing capital wastage by deterring fraud, IA can help improve the quality of ROA (Cohen, Krishnamoorthy, & Wright, 2004; Gramling & Myers, 2003) and help boost this rate (Coram et al., 2008; Yee et al., 2008; Mihret & Woldeyohannis, 2008). IA could also bring value to public sector organizations by assisting in the improvement of the economy, efficiency, and effectiveness as well as providing consultancy services on resource efficiency and effectiveness (Al-Twaijry et al., 2004; Yee et al., 2008).

The importance of internal auditing in the Malaysian public sector was investigated by Ahmad, Othman, Othman, and Jusoff (2009). Their findings reveal a lack of top-level support and understanding, as well as inadequate training for internal auditors on practical auditing procedures, and three, management's level of acceptance and appreciation of internal audit has a substantial impact on internal audit recommendations. Future field survey research in Malaysia's governmental and private sectors, according to the researchers, is needed.

According to the researcher more research need to be conducted in the area of internal audit and its effectiveness, particularly in developing countries (Al-Twaijry et al., 2004; Mihret & Yismaw, 2007; Yee et al., 2008; Arena & Azzone, 2009; Ahmad et al., 2009). IA effectiveness models were established by Mihret and Yismaw (2007), Arena and Azzone (2009), and Ahmad et al. (2009).

Based on the previous discussions and literature in the present study and from the perspective of Marx's (1978) theory of the circuit of industrial capital, the following propositions are worth pursuing:

P1: The pattern of contextual factors and their connections shape the extent of internal audit effectiveness.

P2: Internal audit effectiveness differs systematically between the private sector and public-sector organizations.

As a result, *P1* and *P2* are important in starting this investigation to investigate if IA contextual elements indicate the level of governance. IA will not be able to achieve its mission unless and until its findings and recommendations are followed (Sawyer, 1995). As a result, management support for IA is critical to enhancing IA's involvement in achieving organizational goals (Albrecht, Howe, Schueler, & Stocks, 1988; Rittenberg & Covaleski, 2001). As a result, management action on IA recommendations is seen as critical to the contribution of internal audits to organizational performance.

Thus, the following propositions are also worth pursuing:

P3: Managers of large organizations will appreciate the support of internal audits for complex settings and thus establish effective internal audit departments.

P4: Managers of organizations exposed to high risk will significantly seek internal audit support and thus establish effective internal audit departments.

P5: The attributes of the linkage between internal and external audits can promote or constrain internal audit effectiveness.

We emphasize the importance of empirically examining IA efficacy within the proposed theoretical framework in order to find its potential contextual backdrops by turning the ideas presented in this study into research hypotheses. Examining the components that influence IA effectiveness, as well as their potential relationships, is likely to yield results. The literature revealed that contextual experiences appear to be linked. As a result, the first and second assertions could be used to develop testable hypotheses.

These ideas could help you come up with research questions for a more in-depth qualitative investigation. Such descriptive and explanatory investigations would eventually help us gain a better knowledge of IA practice and theory. This knowledge could help anticipate where IA theory and practice will go in the future.

Future study findings in this paradigm are expected to help IA professional associations identify the primary point for developing strategies for the profession's growth. Understanding the motivations for establishing IA departments, identifying the contextual forces that shape IA

practice, and comprehending the values that organizations seek to realize from IA investments would all aid in the development of pragmatic approaches to further promote the profession's recognition.

The following papers support our research and propositions. The summary of relevant internal audit literature on IA effectiveness is in Table 1.

Table 1. Summary of key relevant literature on IA effectiveness (Part 1)

<i>Study</i>	<i>Method</i>	<i>Sample</i>	<i>Study/Findings</i>
Allegrini, D'Onza, Paape, Meville, and Sarens (2006)	Literature review	n/a	This study is a review of the European IA literature. The review concludes that IA has shifted to a value-adding orientation as contrasted with the traditional compliance orientation.
Cooper et al. (2006)	Literature review	n/a	This paper reviewed the IA literature of the Asia-Pacific region. This study concludes that IA in the Asia-Pacific region has shifted to a value-adding orientation.
Abdolmohammadi and Sarens (2009)	Literature review	n/a	This study reviewed the American IA literature. The review concludes that internal audit in the USA has shifted to a value-adding orientation in general. However, the review also noted that after the issuance of the Sarbanes-Oxley Act (2002), internal audit has emphasized to a compliance approach.
Al-Twaijry et al. (2004)	Questionnaire survey and interviews	145 companies	This study surveyed IA in Saudi Arabian companies listed in the Saudi Stock exchange. It also involved interviews with managers and external auditors. This study employed compliance with Standards for the Professional Practice of Internal Auditing (SPPIA) as an indicator of IA effectiveness. The study concludes that IA in Saudi Arabia is mainly compliance-focused. The study established the positive contribution that government brought about for the development of IA in the country.
Yee et al. (2008)	Questionnaire survey	83 managers	This study is a survey of managers of Singaporean organizations aimed at identifying the perceptions of Singaporean managers on IA services. It concludes that Singapore managers consider internal audit as a business partner. The study attributed this value-adding orientation of IA in Singapore to the westernized business environment of Singapore and the existence of well-developed external audit profession.
Arena et al. (2006)	Multiple case study	6 cases	The study examined the attributes of IA departments of companies listed in stock exchanges with different characteristics. It concludes that the characteristics the stock exchange in which companies are listed determine the orientation of IA.
Arena and Azzone (2007)	Preliminary in-depth case study followed by a questionnaire survey	230 companies	The study was aimed at identifying the adoption and characteristics of IA in Italian companies in the context of changes in the politico-economic setting. The results of this study affirm the diffusion of IA practices induced by isomorphic pressures. This provides additional evidence to those of Arena et al. (2006) and Al-Twaijry et al. (2004) on the relevance of institutional theory for IA research.
Arena and Azzone (2009)	Questionnaire survey	153 companies	This paper examined IA in Italian companies to identify the IA processes and activities, and the organizational links influence IA effectiveness.
Mihret and Woldeyohannis (2008)	Case study	1 organization	This study examined IA in an Ethiopian state-owned enterprise to identify factors that determine the value-adding attributes of IA. The study concludes that organizational goals and strategies and the level of risk exposure of organizations could be potential factors that shape the dominant focus of IA as either assurance or consulting.
Mihret and Yismaw (2007)	Case study	1 organization	This study aimed to evaluate the effectiveness of IA in an Ethiopian public-sector organization and identify the factors that determine the level of effectiveness. The study concludes that management support to IA and IA quality as the major determinants of IA effectiveness.
Mihret, James, and Mula (2009)	Literature review	n/a	This study provided propositions and a research agenda on potential antecedents of IA effectiveness and its possible association with company performance measured as rate of return on capital employed.
Sarens, Abdolmohammadi, and Lenz (2012)	Questionnaire survey	782 US chief audit executives in the Common Body of Knowledge (CBOK)	The study found that an IA function having an active role in CG is significantly and positively associated with the use of a risk-based audit plan, existence of a quality assurance and improvement program, and audit committee input to the audit plan.
Dzikrullah et al. (2020)	Case Study	722 observations	This paper studied companies listed on the Indonesia Stock Exchange for two periods from 2016 to 2017 and utilized OLS regression analysis techniques to examine the hypotheses. They found that one of the internal auditors' functions, which is the size of the IA team, as a corporate oversight mechanism has a positive and significant relationship to the magnitude of external auditor fees, audit quality.

Table 1. Summary of key relevant literature on IA effectiveness (Part 2)

<i>Study</i>	<i>Method</i>	<i>Sample</i>	<i>Study/Findings</i>
Ma'ayan and Carmeli (2006)	Questionnaire survey	244 observations	This study of internal auditors and auditees, who engage in both financial and operational IAs in Israel, extends theory and research on IAs in organizational units. It develops and tests a model that examines the role of top management and internal auditors in facilitating learning from IAs and driving perceived performance improvement.
Dzomira (2020)	Financial statement analysis	8 provinces	The study on qualitative content analysis and presented information about CG and effectiveness of audit committees and IA units in South Africa's public sector. The findings suggested that there is good corporate governance (GCG) in terms of the existence of audit committees and IA functions in the public sector.
Worokinasih and Zaini (2020)	Companies	13 mining companies	The application of GCG and CSR disclosure to increase company value by focusing on the balance of internal and external interests. This study aim is to determine the effect of GCG and CSR disclosure on company value.
Puni and Anlesinya (2020)	Panel regression analysis	38 listed firms	The purpose of this study is to examine the influence of CG mechanisms recommended by the Securities and Exchange Commission (SEC) of Ghana on firm performance on equity and earning per share) as well as market-based measure (Tobin's Q) among listed Ghanaian companies from 2006 to 2018.
Tušek (2015)	Questionnaire survey	65 observations	This research analyse the influence of the audit committee in improving IA activities, or increasing the efficiency of the IA function in the company. In this context, a greater efficiency of the IA function and achieving its numerous responsibilities, which also includes reaching the expected results in the system of CG.

4. RESULTS

According to IIA (n.d.), IA is a self-governing, objective, and consulting activity designed to add value and enhance organization operations. IA assists organizations in achieving their objectives by having an organized and regulatory approach that will assist management in improving its governance process. Therefore, IA is performed by professionals who understand and know the business culture, systems, and procedures. IA ensures that the organization's internal controls are appropriate and sufficient to eliminate any risk and ensures that the CG process is adequate and organizational goals are achieved. Some of the function of IA involves leading organizations on ways to achieve their objective, enhance risk management, and improve internal controls. Therefore, the core function of IA is to ensure that management controls are effective. In Fiji, the IA function is not mandatory for private companies, but it does exist in medium and large private companies in Fiji. Measuring and assessing the effectiveness of IA is a management control device and is directly linked to the organizations' structure and its rules for operations.

Internal auditors need to comply with ethical values, which are considered a fundamental principle for any profession critical to its reception to society. In the past, auditors failed to comply with ethical principles, resulting in corporate failure and financial crisis. Meanwhile, internal auditors often face various ethical issues related to their standards (Goodwin & Ye, 2001). Internal auditors work with audit committees, the board of directors, and senior management to improve tope at the top and maintain an ethical work environment at all levels within the business, so all stakeholders are satisfied that the foundation of CG is strong.

Literature has indicated that contemporary IA focus was on consulting approach when evaluated with conventional IA, which has primarily been

assurance oriented (Bou-Raad, 2000; Goodwin-Stewart & Kent, 2006; Roth, 2000, 2002; Yee et al., 2008). The traditional IA approach encourages IA independence from management. On the other hand, the contemporary approach enables the notion that IA operates as a managing partner. According to Cooper et al. (2006), after analyzing the Asia-Pacific IA literature, the IA function is shifting towards consulting orientation in the region. Likewise, according to Allegrini et al. (2006) and similar literature by Abdolmohammadi and Sarens (2009), the IA function is shifting after analyzing European IA literature towards consulting. However, other literature indicates a mixed result on IA's dominant focus. For instance, Abdolmohammadi and Sarens (2009) mentioned that even though the IA function is shifting but it also tends to improve compliance audits after the enhancement of the Sarbanes-Oxley Act of 2002. Roth (2000, 2002) and Yee et al. (2008) have also indicated that there is evidence that in North America and Singaporean, the role of IA is shifting towards consulting nature. The existing literature on IA suggests that IA is a value-added activity. The neo-classical may not sufficiently address IA effectiveness because of a developed market and large volume of transaction prescriptions.

IA strengthens CG by assuring risk-based audits. Audit jobs are projected to increase risk governance, culture and behavior, sustainability, and other non-financial reporting indicators (Cooper et al., 2006). As organizations address the increasing risk range of new technology and disruptive innovation, a vibrant, responsive IA function can be an essential resource that supports sound CG. Assurance in auditing plays a vital role in government, business, and the economy. An audit is an independent assessment of the financial statements of an enterprise or business conducted to express assurance to resource providers as to whether those statements give an accurate and fair view of the financial statements.

5. DISCUSSION AND RESEARCH AGENDA

The research paper aims to develop research propositions using an approach that will combine institutional theory and Marx's theory of the circuit of industrial capital. The institutional theory identifies possible appropriate influences of IA effectiveness, and Marx's theory of industrial capital portrays the value-added role of IA. By extending the propositions presented in this paper into research hypotheses, we emphasize the necessity to analytically verify IA efficacy within the suggested theoretical framework in order to detect its possible contextual aspects. It will be helpful to identify aspects that influence IA's efficacy and their relationship. It is indicated in the literature that contextual factors are interrelated.

Therefore, propositions (*P1*, *P2*, *P3*, and *P4*) are the starting point to design testable hypotheses and the same will be used to develop research questions for more detailed qualitative analysis. Descriptive and explanatory approaches have a deeper understanding of IA practices. A deeper understanding of IA will enable or assist in predicting further developments in IA theory and practices. According to institutional theory, having a detailed knowledge of IA will develop a good relationship with management and what management expects from IA.

Hence, it is time to determine the relationship between IA effectiveness with contextual factors and how it affects the organization's performance. Propositions by Ruud (2003) on national differences in the role of IA, Goodwin-Stewart and Kent (2006) on differences in IA between government and private organizations, Mihret et al. (2010) on organizational qualities could influence IA to add value. An organization needs to understand the motives for establishing an IA department. The institutional theory explains the purpose of forming IA and it can further suggest an organization in which the IA department provides a type of service to management.

Furthermore, the theories developed for this study of IA timely consideration is given to efficacy and company performance. The contribution of IA to the achievement of organizational objectives has been examined, although the literature (Gramling & Myers, 2003; Badara & Saidin, 2013; Tušek, 2015) suggests this possible contribution. In addition, given IIA's recognition of the need to understand IA's state of affairs worldwide (Grynberg, Munro, & White, 2002) and its clear expectations to nurture IA in developing countries, a study of IA in a developing country like Fiji is considered necessary. Furthermore, due to the increasingly globalized nature of business, some rising countries are undergoing CG reforms (Black, Lowe, & Rachinsky, 2006; Argüden, 2010).

Fiji is a developing country where IA practice is apparently at an infant stage of development. IA in Fiji is also not sufficiently explored apart from Varma, Patel, and Varma (2009). Second, the Fijian economy comprises government statutory bodies, private companies and public companies. Due to ownership differences and economic structures, examining the IA and IC effectiveness variation is challenging. Specifically, it focuses on the role of

government and how government can assist in the economic development of IA. In Fiji, the regulatory and ethical framework of law is government-dominated. For example, the FICAC undertakes fraud investigation in government organizations as fundamental (FICAC, n.d.). In comparison to the prevailing settings in the literature, such laws and regulations may bring a variety of problems and opportunities for IA.

Propositions (*P3*, *P4*, and *P5*) are important because they provoke this analysis to evaluate if IA has progressed to the point where its profile reflects the organization's goal achievement. A study like this will help determine whether the present definition of IA and professional practice guidelines are useful in practice. Hence, *P3* and *P4* are typically appropriate starting points for formulating a quantitative study hypothesis. A favorable relationship between IA effectiveness and corporate performance could be experimentally investigated in private/public and government ministries using performance proxies like return on capital. The extent to which management acts on internal auditors' suggestions is determined by IA's contribution to company implementation. As a result, studies looking at the relationship between IA effectiveness and company performance must include management's response to IA recommendations as a moderating variable, for which *P4* and *P5* are used to develop and test a hypothesis.

6. CONCLUSION

The paper combines existing IA literature with institutional theory and Marx's theory of the industrial capital circuit to develop assertions and recommend practical research goals. The theoretical underpinning for the research of IA effectiveness and its ties to internal audit practice was laid forth in this paper.

The assumption that underpins institutional theory is a related weakness that must be acknowledged. It mainly focuses on the structure, and it emphasizes external pressures. The governance mechanisms of private and public companies are different.

It is high time that the internal audit is a service to the board, and IA should be made independent of the top management. The researchers encourage further research to expand the results of this study, improve the results by minimizing the impediments of the study, and confirm the results in different settings. According to the researchers, future research on duplicating this study in different situations could assist validate the findings. Studies in locations where IA is well-developed and in diverse contexts, such as Fiji, where IA is still in its infancy, could provide useful information. To determine the validity of the ideas presented in this paper, they must be put to the test.

Thus, studies examining how IA can balance the consulting role of IA and the assurance role of independence and integrity could be another promising arena for future research. How culture impacts IA practices is also a bright area for future research.

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