

# IMPACT OF INTERNAL AUDIT QUALITY ON FINANCIAL STABILITY

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**Abstract** *The objective of this study is to find out the effect of internal audit quality as an essential tool, for efficient and effective financial management and stability, which fulfills the financial goals of the firm. Due to the increasing importance of internal audit quality and the limited evidence on its impact on financial stability, we have examined the influence of internal audit on the financial aspects of companies. The study has drawn evidence from the data collected through a questionnaire and performing correlation analysis and simple regression on the audit, finance, and banking professionals. The findings assess and suggest a positive relationship between audit quality and financial stability. The research reveals the significant role of internal audit quality on the financials; high audit quality directly impacts the company's level of financial stability. Based on the findings, awareness among the employees and management has to be maximised so that an understanding of the challenges and impact on financial stability can be assessed by the auditors. The paper will prove to be an essential contribution by providing substantial evidence regarding internal audit quality and financial stability.*

**Keywords:** *Internal Audit, Internal Audit Function, Audit Quality, Financial Stability, Audit Impact*

## INTRODUCTION

Audit quality is essential in every organisation for managing their resources and improving financial performance. During the course of many years, the changing business environment requires the management to play a big role in maintaining financial stability. Failure to maintain stability can lead to frauds, big financial scandals, losses, and embezzlement in the company. Good internal audit quality plays a role in supporting the management, by providing reasonable assurance of financial stability and performance of the whole organisation. Internal audit, along with internal controls, ensures the maintenance and preparation of financial statements in terms of the compliances, rules, and regulations applicable to the company. The objective of this study is to find out the effect of internal audit quality as an essential tool, for the efficient and effective financial management and stability, which fulfills the financial goals of the firm.

The major role of internal audit, which is to maintain the stability of financial records, is done through identification of critical errors, frauds, and issues, and applying corrective action before the circumstances lead to a negative impact on the financials of the business (Badara, 2013). It is important to note that internal audit function improves governance and implementation of internal controls framework, which raises awareness in the management regarding the advancement

or delay in achieving the company's objectives and goals (Vijayakumar & Nagaraja, 2012).

One of the significant aspects of audit is its quality, which plays an important role in verifying financial transactions, law, and compliances, along with cross-checking budgeting decisions, decisions regarding management of finances, operational control and expenses, administrative expenses, and short and long investment decisions and growth plans with respect to expansion or dissolution. It also plays a vital role in each business organisation for efficient use of its resources, leading to an improvement in performance (Hassan & Farouk, 2014).

Across the globe, audit quality assures the fulfillment of fair quality financial records for the companies listed on their stock exchanges. Quality in internal audit functions reflects the quality of the financial statements, which generates confidence among the stakeholders; in addition, it shows the credibility of the company's audit committee, corporate governance structure, and good management practices, leading to financial stability (Enekwe et al., 2020).

Audit quality is reasonable when it follows all the auditing standards, best practices, and assurance designed to provide a true picture of the company's performance over the course of time. The quality of audit and auditors positively affect frauds that occur in financial reporting and help companies reach financial stability. Financial stability is best described when a company

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illustrates its condition fairly, without manipulation in earnings and associated risks.

Skousen et al. (2009) discussed that management might manipulate the financials to present a stable position in the market. Financial instability in a company increases the chance of fraud while presenting the financial reports.

Due to the increasing importance of internal audit quality and the limited evidence on its impact on financial stability, the study intends to explore the effect of internal audit quality as an essential tool, for the efficient and effective financial management and stability, which fulfills the financial goals of the firm. The study aims to materialise the impact of internal audit quality on the stability of the company financials and to examine the significant role of quality audit while making financial decisions. The results of the study indicate that internal audit quality has a positive impact on the financial statements and financial stability of the organisation, as 39 respondents out of 71 agreed that there is material impact of internal audit quality on financial performance. Further, the results depict that internal audit quality adds value to internal control, risk management, and compliances, which help in dealing with the financial crisis. Analysis shows that internal audit quality depends on the timely support from staff and management. However, without their support it is difficult to improve the internal audit quality for better financial stability. Our study differs from others by providing empirical evidence regarding the impact of internal audit quality on financial stability, which has not been researched in detail before. It has presented arguments based on the data collected through a questionnaire and analysed through descriptive and simple regression analysis; this is the first paper to present the area in general. To fill the gap in this area of literature, our study provides significant evidence, and our result presents the impact of the topic as a successful addition to the literature and an improvement criterion in internal audit. The study's results are significant for audit, finance professionals, and on management, as awareness has to be increased for cooperation with internal audit staff for better financial stability. This study continues with the following sections, covering the reviews of literature on the topic, including data collected and analysed, summarising the findings, followed by conclusion and discussion in the last segment.

## LITERATURE REVIEW

Different theories are reviewed and empirical evidence on the impact of internal audit quality on financial stability is presented.

*Agency Theory:* Panda and Leepsa (2017) explained that the theory focuses on agent-principal relationship widely

used in the audit, which states that the stakeholders act as the principal, and management, the agent that holds the authority to make decisions. The management is responsible for maximising the wealth of shareholders; according to the author, there has been no particular theory that acts in the interest of maximising the firm's wealth. For the best interest of the company, agents and principals look at achieving utility with minimum resources. Therefore, to make the role of internal audit significant, the top management is required to work independently, as much like stakeholders, and avoid conflicts in the relationship. For ensuring that interests are being protected, the principal is required to employ external or internal auditors to check whether management is acting in the company's interests (ICAEW, 2015).

*Stakeholder Theory:* The theory works on the assumption that ethics are very important to the management of the company. The theorists are of the view that stakeholders have different interests in the organisation, and the advantage derived by them determines the way in which the organisation should operate for the survival of the company's goals (Vijayakumar & Nagaraja, 2012).

*Legitimacy Theory:* This theory focuses on the society perspective that organisations work as per the acceptable rules and regulations of the society. It implies that internal audit functions will reveal the perception about the organisation, and according to the expectations, the reporting of business operations can be executed (Badara, 2013).

*Credibility Theory:* Volosin (2008) suggests that reliability on the financial statement is an indistinguishable part of the audit; it is a significant answer that the auditor has to present in their report to the clients. The credibility of the financial statement is enhanced when the audit is of quality.

*Overview of Related Theories:* The theories examine the audit plan, procedure, its quality and relationship between the management and stakeholders, and the financial stability of the organisation. Every theory presented has its own perspective on dealing with the importance of internal audit quality and its impact on financial stability. Among the discussed theories, the agency theory is the most popularly used for application in the internal audit segment, and for maintaining the quality of internal audit for the users of financial statements.

Considering the aim of the study, the application of the agency theory is justified. The agency theory is directly relatable to the topic of discussion, as it includes both audit quality and financial stability for examining the fair position of the company and achievement of targets, and presents the actual position to the stakeholders without any manipulation. It helps in improving management decisions and in effective implementation of internal control framework necessary for

financial stability. As far as the credibility theory is concerned, it ensures that the quality of audit work builds trust and faith on the company, helping the people make viable investment decisions. The theories discussed above provide a wider scope of discussion and are a source of identification for researchers, specifically in matters relating to internal audit and financial performance, which in turn directly impact the financial stability of an organisation. These theories will allow bridging of the gap between internal audit function, its effectiveness, quality, control, and financial stability.

*Financial Stability:* Skousen et al. (2009) described financial stability as a condition that states the financial performance and situation of a company. It is dependent on the profitability position, risk of misstatements, and growth. An unstable company forces the management to find an opportunity for manipulating growth and present a stable financial position. It tends to make financial statements a tool for committing fraud and covering the unstable position of the company. A review of internal auditing in recent years has shown that it secures financial accountability, stability, monitoring risk, and directs and restrains different activities of the company by identifying areas of risk. Internal audit acts as a pillar for corporate governance and supports the external auditors, as it is preventive and ongoing in nature, whereas external audit is conducted annually and the scope is quite limited.

*Internal Audit Effectiveness:* Several previous researchers, like Shamki and Alhajri (2017), Theofanis et al. (2011), and Petraşcu (2010), conducted a study on internal audit effectiveness and elaborated different factors that affect audit effectiveness, that is, internal control environment, its functions, and risk assessment. It plays a major role in maintaining effective control on the management and daily monitoring, for ensuring quality work and financial stability. It also suggests that the role of an internal auditor is more vital than that of an external auditor, due to an inherent limitation present in their scope of audit. Therefore, the researchers suggested that the factors that directly have material impact on the financial stability due to internal audit quality have to be emphasised.

*Internal Audit Quality:* The research by Ahmad (2015) addressed the negative conditions of the quality of audit in Oman compared to other nations, as the internal audit is not as per the international standards, because of avoidance and ignorance of policies and procedures, and time constraints. However, the government is looking forward to bringing change and improving the quality of audit. On the other hand, as per Choi and Lee (2014), research conducted on the companies which are being audited by the Big4 suggested that these audit firms are providing high quality audits so that investors get fair financial statements at a reduced cost. In addition, large audit firms presented better quality audits

with respect to the smaller firms. Although, the author's study lacked the perspective on internal audit, and focused on external auditors.

As per Badara and Saidin (2013), skills, competence, and proficiency increase the quality of audit while performing internal audit; therefore, it is important that auditors must possess the required training, qualification, and ability to perform the internal audit function. Literature in the current topic area is scanty and ensuring proper financial stability while conducting any internal audit as per the expectations of the stakeholders is an important aspect of audit quality, to improve the financial stability of the organisation.

Stefano et al. (2018), in their paper, representing the internal audit effectiveness with the organisational process and relationship perspective, have performed the structural equation modelling technique, which has helped test the effectiveness of internal audit and the firm's process. The paper has contributed in making clear the understanding of support for the profession and the institutional theories that will help in the consideration of different components of organisation to be related with the internal audit. It supports the structural equation model, which is individually considered the one model to study the different components of organisation, the process, and the relationship with the internal work process. For the research, the questionnaire has been created by external auditors from one of the Big4, and the data used was collected from 128 Italian companies by performing the partial least-square test. It has been found in this assessment that internal audit effectiveness is very important in creating the determinants of internal audit, and in establishing the relationship with organisational components as well.

The concept of internal audit effectiveness is something that is helpful for the survival of any organisation responsible for achievement and development, whereas internal audit is the function that is carried out for assessing the effectiveness of the company's internal control. Several organisations have established their internal audit departments and service centres, which are beneficial for the smooth working of the organisation (Badara & Saidin, 2013). The paper is aimed at providing the effectiveness of internal audit during the period 2000-2013, concentrating on the public centre entities. It is therefore not an empirical work. It is helpful in the development of existing literature by contributing past literature on internal audit effectiveness.

According to Eulerich et al. (2017), the study presented here deals with the analysis of internal audit functions and its dependability on the impact of executive boards and audit committee. This research has utilised the logistics regression model to find out the probability of specific activities of the organisation. It is hence focused on the 524 responses given



by the US – the chief audit executives. The outcome of this research is that the audit committee and the auditing boards have an impact on internal auditing functions. In addition, the findings point out the role of Internal Audit Function (IAF) on the stakeholders and the audit committee. This research will help the auditors double-check the work done by them in order to evaluate the impact on the executive board and the audit committee activities.

There are many studies that have helped investigate the impact of internal audit function quality. The author, Pizzini et al. (2015), has researched this effectiveness in the paper discussing the impact of Internal Audit Function (IAF) quality and its contribution to audit delay. This research has taken into consideration the empirical test to be conducted on 292 observations, from that 216 firms have responded to the Institute of Internal Auditor's Global Auditing Information Network survey, resulting in the decrease in quality, competency, and the fieldwork of IAF. This research has also examined the factors that impact the external auditor's decision in using IAF work.

Internal auditing is one of the most important parts of an organisation; it helps in maintaining the resources and improving the operations of the organisation (Amoh, 2017). The study taken here is focused on the effects of internal audit quality on financial performance of firms listed on the Nairobi Securities Exchange. This paper has used the descriptive research model to find out the data on financial performance and to analyse the results; it has interpreted that the quality of work has a significant impact on the relationship with financial performances. The focus is on independent variables – quality of work, financial independence, professional proficiency, and top management support.

According to Mazza (2018), the author has presented a case study of Bomet country, which talks about the effects of internal audit function on service delivery in Kenya. This study has discussed the internal auditor's technical competency on the performance of internal audit staff; the latter are required to be competent in technology-based auditing, risk profiling, and financial analysis tools. This research has thus suggested that the internal audit software and technical assessment will help in the enhancement of the public financial system in Kenya.

According to Shamki and Alhajri (2017), there are many factors that influence internal audit effectiveness in Oman; these factors are the internal audit scope, experience, and the senior management response. The research used a questionnaire consisting of four sections with 48 questions, which focused on descriptive, correlation, and multiple regression analysis. The result is maximum contribution of managers in providing information to the internal audit department and in enhancing the performance.

The role of internal auditing has always been crucial to the quality of financial reporting. The author, Suryana, U. (2018), has conducted research with the help of descriptive and verification methods, focusing on 43 banks listed on the Indonesian Stock Exchange. This research has found that the quality of financial reporting is higher where the internal audit role is understood and the principles have been applied effectively. It also has helped in understanding the importance of implementing the internal audit functions.

The internal control and risk management for public integrity in the Middle East and North Africa is a study prepared by the Public Sector Integrity Division of OECD. This paper provides a strong context to the issues of corruption in public sectors, and encourages management to immunise the internal audit process, which will also enhance risk management of the organisation. This paper discusses the development of the professional capacity of internal audit and practitioners, the use of integrated IT tools for the internal control process, and the development of the anti-corruption policies and systems in the country.

According to Eshitemi and Omwenga (2017), financial performance has an impact on the internal audit function with respect to Lamu County, Kenya. This study is based on the survey design method and targeted the employees of the financial department in the country. The outcome of the primary and secondary data reveals that the internal audit system has been influential in detecting frauds and false practices. It is done by checking the activities of the internal audit system regularly and assuring the adequacy of mitigation controls in various organisations.

The journey of excellence in internal audit is the extract that deals with the understanding of big data auditing and its guidance in propagating the process. This extract explains about the risk and assessment in creating a world-class internal audit system, which will make the latter proactive, independent, empowered, and objectified. The cybercrime issues are also addressed, which will help one understand the web barriers and legal aspects. In addition, the paper discusses the profiling techniques of cybercrimes by expanding the physical world.

According to Ziniyel et al. (2017), the practice of internal audit is the basis for effective execution by financial institutions. It is proved in this paper using descriptive cross-sectional research; the data gathered has indicated that 58.8% of the respondents believe that internal audit is the key to financial performance, which can include some challenges such as insufficient staff and accommodation (University of Ghana). The study has also focused on recruiting internal auditors to the university to upgrade the process and the future of the auditing system.

According to Shamki and Alhajri (2017), the factors that influence internal audit effectiveness are audit scope, experience of the internal auditor, and response of senior management. This study has found that the relationship between audit effectiveness and the scope of auditors is insignificant with relation to the managers of the organisation. The paper thus concentrates on maximising the awareness of employees in relation to cooperating in improving internal audit standards.

Internal audit and the quality measures regarding sales in the economic institutions is a case study of the Libya Company. It has been presented by authors Alfadhli et al. (2018), focusing on the actual result of the institution, with the help of the audit process. The research is based on statistical and descriptive analysis. It establishes a strong relationship between the sales and internal audit functions. The research also recommends that the analysis of sales operations must be carried out in order to avoid false practices.

According to Kontogeorgis (2018), the research presented here is focused on the role of internal audit on management and corporate governance. It suggests that internal auditing is one of the crucial parts of corporate governance, which is a vital tool for the success of the company. Special emphasis is placed on the corporate governance code of business. The findings of this research are based on secondary data analysis.

According to the paper presented by Nwanyanwu (2017), the author talks about the audit quality practices in the financial reporting in Nigeria. The research has been conducted with the help of multiple regression and descriptive analysis methods to find strong relativity between the audit quality measures and performance engagement. The highest explanatory power of variations of reliability of the financial reports is 47.9%. The credibility and the reliability of the reports is on performance engagement.

According to Cohen and Sayag (2010), the effectiveness of internal auditing in Israeli organisations is dependent on the determinants, which reflects the identifiable areas of risk management to be considered in the organisation. It is a kind of exploratory study that reflects good psychometric properties of developing the public and private sector organisational structure. The model utilised explains the variance of effectiveness dependent on the internal audit process.

According to Lagat and Okelo (2016), the study is intended to find out the effect of internal control systems on the financial management aspects. The internal control

system framework is analysed with the help of five kinds of variables, namely control environment, activities, risk management, information and communication, and system monitoring.

The objective of the paper is to study the impact of internal audit function and efficiency on organisational performance; it has used primary data analysis with simple regression process. This study shows that the internal audit function and efficiency contribute to the financial performance of the entity. This study has concluded on the efficiency of control and the check on fraudulent activities, to minimise the impact of fraudulent activities that will review the internal control system.

The literature review presented has helped the researcher in evaluating the impact of internal audit quality on financial stability. The literature review is focused. It is the essential tool that is developed from rigorous research, which includes the impact of internal audit on organisation process, survival of the organisation, dependability of organisational and audit committees, quality control, and quality of financial reporting. These are some of the major areas addressed in this paper. Many research papers studied here specifically deal with the internal audit and organisational process impact. It is clear that the research gap addresses the relationship between internal audit quality and financial stability of an organisation.

## HYPOTHESES DEVELOPMENT

The below research model expresses the relationship between internal audit and financial stability. Internal audit is explained as internal audit quality and internal audit effectiveness. For depicting the relationship between the impact of internal audit on financial stability, hypothesis testing is carried out.

H0: Positive relationship between the impact of internal audit on financial stability.

H1: Negative relationship between the impact of internal audit on financial stability.

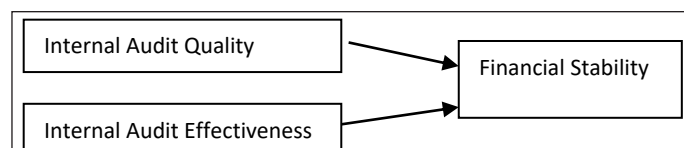


Fig. 1: Research Model

## METHODOLOGY

The study adopted a survey research design, enabling the collection of data and relevant information on the internal audit quality and financial stability. The sample size consisted of 200 professionals from the field of finance, banking, and audit, comprising audit managers, audit team members, finance managers, chief finance officers, chartered accountants, MBA finance students, bank employees, internal audit team staff, employees, and senior level managers of the company. The responses from the structured survey were derived from the questionnaire, personal interviews, and previous case studies and journals. The researcher used both an open-ended and close-ended questionnaire to collect the information. The measurement criteria applied here is the statistical tools on the responses gathered on the internal audit quality and financial stability. The reliability and validity of the information will be based on the logical representation between the objectives of the study, questions asked, and responses gathered. The data gathered was reliable and valid, as it structured the responses from the respondents who are involved in the companies in the internal audit teams, finance professionals who worked under the finance department and coordinated with the audit teams, audit managers, and chartered accountants. Quantitative data was analysed using modern data analysis tools, including the latest software, i.e., Statistical Package for Social Sciences and the application of Cronbach alpha, bar diagrams, mean, standard deviation, and t-test. The data analysed was projected through frequency tables and interpreted in the findings. The interpretation was in relation to the subject matter of the study. The total number of respondents that were interrogated during the primary investigation was 90, of which 19 questionnaires had to be rejected because of being incomplete/fake. Thus, the total number of respondents was taken as 71 for the purpose of the study.

**Table 1: Demographic Distribution on the Basis of Age**

Category	Percentage
Under 25	10%
25-45	45%
46-65	25%
65+	20%

## FINDINGS AND DISCUSSION

The researcher designed a questionnaire with 25 statements, to generalise the findings of the project using the Likert statement approach. The questionnaire was developed keeping in mind all the perspectives of internal audit, internal audit quality, and its impact with respect to the opinions from the audit team, employees working in the industry, financial aspects, and the point of view of the auditors with respect to risk and stability. A valuable and an important part of survey research, the respondents could choose one option that aligns with their opinion the most. The scale designed by the researcher ranged from strongly disagree to strongly agree. These were represented as SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, and SA = Strongly Agree. This enabled us to assess the attributes of the respondents with regards to the subject.

The significance of this research is reflected in the findings ( $F = 5.836, p = 0.000$ ). Control activities ( $\beta = .315, p = 0.045$ ) and ICS monitoring ( $\beta = .432, p = 0.049$ ) are the constraints of measuring financial management.

Table 2 shows the count and percentage of the respondents as per the ratings they gave on the Likert scale, from strongly disagree to strongly agree.

This table aids the reader in identifying the frequency of respondents for each statement of research.

**Table 2: Frequency and Percentage of Likert Statements**

Sr. No.		SD		D		N		A		SA	
		N	%	N	%	N	%	N	%	N	%
1.	Internal audit quality adds value to internal control, risk management, and compliances.	6	8.45	7	9.86	10	14.08	21	29.58	27	38.03
2.	Internal audit helps in the early detection of critical problems and non-compliances.	9	12.68	7	9.86	11	15.49	26	36.62	18	25.35
3.	Internal audit has a material impact on the financial stability of the organisation.	8	11.27	8	11.27	14	19.72	29	40.85	12	16.90
4.	Internal audit plays a critical role in the financial planning and decision-making of the organisation.	10	14.08	14	19.72	11	15.49	25	35.21	11	15.49
5.	An employee can understand the problems and their impact on financial stability as identified by the auditor.	7	9.86	13	18.31	17	23.94	22	30.99	12	16.90

Sr. No.		SD		D		N		A		SA	
		N	%	N	%	N	%	N	%	N	%
6.	The internal audit process has been properly planned and implemented within the organisation and the internal audit team has a regular visit and proper functioning of their duties in your organisation.	9	12.68	15	21.13	17	23.94	16	22.54	14	19.72
7.	The audit committee has been actively involved with the internal auditor for improving and ensuring the effectiveness and quality of the audit.	7	9.86	12	16.90	17	23.94	22	30.99	13	18.31
8.	There has been a dedicated team, which is actively involved in your organisation for correcting the mistakes identified by the auditor.	8	11.27	19	26.76	18	25.35	22	30.99	4	5.63
9.	Internal audit process is consistent with the governance framework and organisation policy.	9	12.68	11	15.49	13	18.31	29	40.85	9	12.68
10.	Applicable audit standards and guidelines have been strictly followed in internal audits to ensure high quality.	6	8.45	18	25.35	15	21.13	24	33.80	8	11.27
11.	Employees and internal auditors face challenges while working together to improve the internal audit quality for better financial stability.	7	9.86	19	26.76	9	12.68	24	33.80	12	16.90
12.	Internal audit also handles the situations and circumstances which are of an exceptional nature.	5	7.04	21	29.58	14	19.72	23	32.39	8	11.27
13.	The internal audit team faces difficulty in resolving issues positively and on a timely basis due to lack of support from staff members and management.	10	14.08	16	22.54	18	25.35	15	21.13	12	16.90
14.	An adequate and regular training programme is prepared/drafted but not implemented at ground level by management that restricts improvement in internal audit quality.	5	7.04	21	29.58	13	18.31	25	35.21	7	9.86
15.	There is absence of adequate control and monitoring system for ensuring the effectiveness of internal audit function.	7	9.86	20	28.17	14	19.72	25	35.21	5	7.04
16.	A risk assessment by internal audit enables in reducing the audit testing and assists in focusing on material areas to strengthen financial stability.	8	11.27	14	19.72	13	18.31	29	40.85	7	9.86
17.	Internal audit is capable and effective in finding out areas and functions that have a negative or adverse impact on the financial stability of the organisation.	10	14.08	14	19.72	13	18.31	26	36.62	8	11.27
18.	The audit committee responds immediately or on a timely basis to the audit team to reduce or eliminate the adverse impact of material findings on financial stability.	8	11.27	17	23.94	17	23.94	22	30.99	7	9.86
19.	Employees possess the requisite qualifications and knowledge to understand the problem areas and their significance.	7	9.86	14	19.72	18	25.35	25	35.21	7	9.86
20.	Quality internal audit enables management to effectively and efficiently deal with the financial crisis.	6	8.45	18	25.35	15	21.13	20	28.17	12	16.90
21.	The audit plan should also be discussed with the departmental managers and staff members for improving audit quality and effectiveness.	14	19.72	12	16.90	13	18.31	18	25.35	14	19.72
22.	Regular tests and performance of the employee should be evaluated to ensure that they are not repeating the mistakes identified by auditors.	7	9.86	15	21.13	11	15.49	18	25.35	20	28.17
23.	Careful assessment and regular updating should be made applicable to audit standards and guidance notes.	7	9.86	7	9.86	15	21.13	25	35.21	17	23.94
24.	External auditors/statutory auditors should also be involved in the internal audit procedure right from the beginning of the internal audit until the finalisation of the audit report.	13	18.31	12	16.90	15	21.13	23	32.39	8	11.27
25.	A penalty should be imposed on the auditor for carelessness in audit performance and non-performance of the entrusted work and, a recognition and rewards policy should be implemented in the organisation to motivate employees for performing their duties.	10	14.08	13	18.31	11	15.49	25	35.21	12	16.90

\*SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree



Table 2 depicts the level of acceptability of the selected statements from the point of view of the respondents. Reading the table, we find that, from left to right, the columns and rows are set in a way that the responses can easily be seen ranging from strongly disagree to strongly agree. For the purpose of interpreting the table, we are mentioning the maximum and minimum number of responses in each category; this will enable the readers to spot the figures easily and to arrive at the conclusions readily. The third column of the table is ‘strongly disagree’; the statement that was strongly disagreed on by a maximum (14 or 19.72%) number of respondents was ‘The audit plan should also be discussed with the departmental managers and staff members for improving audit quality and effectiveness’. On the contrary, the statement which was strongly disagreed on by a minimum (5 or 7.04%) number of respondents was ‘Internal audit also handles the situations and circumstances which are of an exceptional nature’. In the same pattern, from the next column, we find that a maximum number of respondents disagreed (21 or 29.58%) on the same statement that was strongly disagreed on by a minimum number of respondents, i.e., ‘Internal audit also handles the situations and circumstances which are of an exceptional nature’. A minimum number disagreed (7 or 9.86%) on two statements, viz. ‘Internal audit quality adds value to internal control, risk management, and compliances’, and ‘Internal audit helps in the early detection of critical problems and non-compliances’. The next column represents the set of respondents who were neutral on the various statements. A maximum (18 or 25.35%) and minimum (9 or 12.68%) number of respondents were neutral on the statements ‘The internal audit team faces difficulty in resolving issues positively and on a timely basis due to lack of support from staff members and management’ and ‘Employees and internal auditors face challenges while working together to improve the internal audit quality for better financial stability’, respectively. The next column represents the details of the number of respondents who agreed to the set of statements. A maximum (29 or 40.85%) number of respondents agreed that ‘Internal audit has a material impact on the financial stability of the organisation’. On the other hand, a minimum (15 or 21.13%) number of respondents agreed that ‘The internal audit team faces difficulty in resolving issues positively and on a timely basis due to lack of support from staff members and management’. Last is the column of respondents who strongly agreed to a particular statement. A maximum (27 or 38.03%) number of respondents strongly agreed on ‘Internal audit quality adds value to internal control, risk management, and compliances’ and a minimum (4 or 5.63%) number strongly agreed on ‘There has been a dedicated team, which is actively involved in your organisation for correcting the mistakes identified by the auditor’.

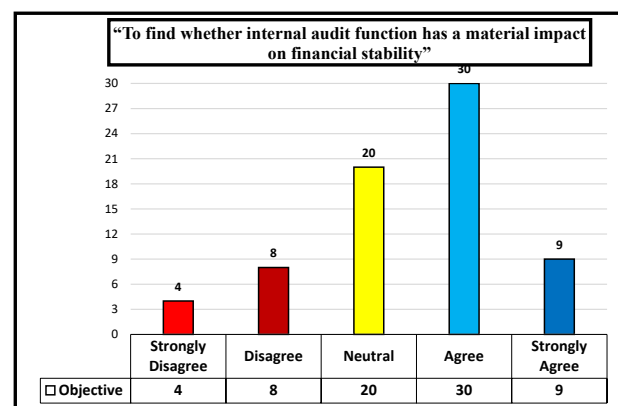
## DESCRIPTIVE ANALYSIS

**Table 3: Frequency and Percentage of Objective**

Objective		Frequency	Percentage
“To find whether internal audit function has a material impact on financial stability”	Strongly Disagree	4	5.63%
	Disagree	12	16.90%
	Neutral	16	22.54%
	Agree	30	42.25%
	Strongly Agree	9	12.68%
	Total	71	100.00%
	Mean	3.39	
Standard Deviation	1.089		

**Table 4: Frequency and Percentage**

Objective		Frequency	Percentage
“Recommendations and suggestions to improve the internal audit quality” (Please refer to points 21 to 25 of the questionnaire – Table 2)	Strongly Disagree	4	5.63%
	Disagree	8	11.27%
	Neutral	20	28.17%
	Agree	30	42.25%
	Strongly Agree	9	12.68%
	Total	71	100.00%
	Mean	3.45	
Standard Deviation	1.039		



**Fig. 2: Graph Representing Impact of Internal Audit on Financial Stability**

Tables 3 and 4, and Fig. 2 depict the contrast of objectives with the Likert statements from the questionnaire. This was done to arrive at worthy conclusions and to prove that the objectives of the study have been well justified. Tables 3 and



4 represent the objectives and the relevant statements. By working on it, we found that out of 71 respondents, those who strongly disagreed were just four (5.63%), those who disagreed were 8 (11.26%), those who were neutral were 20 (28.16%), those who agreed were 30 (42.25%), and those who strongly agreed were 9 (12.67%). Further, analysing the primary data, the calculated mean score was 3.4, as depicted in Table 3, which states that respondents ‘agree’ to the statement; calculated standard deviation was 1.089, which was more than 1. This implies varied responses to the statement. The outcome of primary data for objective

three was that 54.92% respondents agreed, whereas 16.89% disagreed. In conclusion, we can state that the objective ‘To find whether internal audit function has a material impact on financial stability’ was well justified through the selected Likert statements.

For the purpose of recommendation and suggestion, to improve internal audit quality, see Table 5. Applying hypothesis testing, from the above analysis it is clear that the null hypothesis is true, as there is a positive impact of internal audit quality on financial stability. H0 = positive impact.

**Table 5: Comparative Regression Analysis**

Model		Unstandardised Coefficient		Standardised Coefficient	t	Sign.
		B	Stand Error	Beta		
1.	(Intercept) Constant	5.208	4.22	4.08	1.23	0.43
2.	Internal audit standard	0.945	0.514	0.653	1.83	0.32
3.	Internal control	0.171	0.186	0.150	0.912	0.53
4.	Internal audit function	1.737	0.409	1.610	4.24	0.15

The regression equation for the above mentioned finding is:

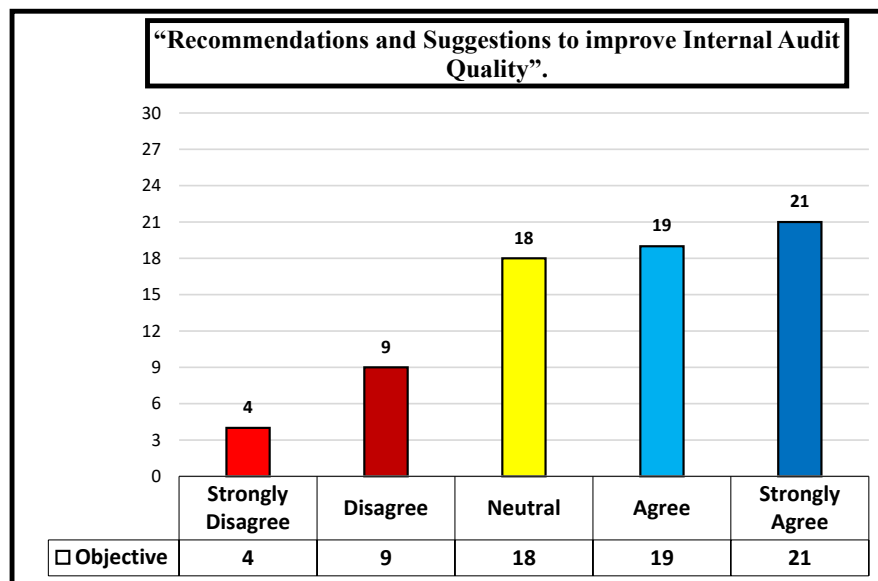
$$Y = 5.208 + 0.945X + 0.171 X1 + 1.737 X2$$

The analysis depicts that keeping internal audit standards, internal control, and internal audit quality to a constant, zero financial stability would be at 5.208, and any increase in the internal audit function would increase the financial stability by 5.208, an increase in internal control would increase the financial stability by 0.171, and a unit increase in internal audit function would result in an increase in financial stability by a factor of 1.737. From Table 5 it can be observed

that internal audit function and internal audit standards are highly significant in enhancing the financial stability of any business, company, or organisation.

### SUMMARY OF FINDINGS

The results of the analysis show that on an average, more than 54.93% respondents agreed to the fact that there is a positive relationship between audit quality and financial stability, and it influences financial performance.



**Fig. 3: Graph Representing Impact of Recommendations and Suggestions on the Audit Quality**

Table 5 and Fig. 3 depict the contrast of objectives with the Likert statements from the questionnaire. This was done to arrive at worthy conclusions and to prove that the objectives of the study are justified. Table 5 represents the objectives and the relevant statements. By working on it, we found that out of 71 respondents, those who strongly disagreed were 4 (5.63%), those who disagreed were (12.67%), those who were neutral were 18 (25.35%), those who agreed were 19 (26.76%), and those who strongly agreed were 21 (29.57%). Further, analysing the primary data, the calculated mean score is 3.45, as depicted in Table 4, which states that respondents 'agree' on the statement, and the calculated standard deviation was 1.039, which was more than 1. This implies volatility in the responses to the statement. The outcome of primary data for objective four was that 56.33% respondents agreed, whereas 18.3% disagreed. In conclusion, we can state that 'Recommendations and suggestions to improve internal audit quality' was well justified through the selected Likert statements.

**Table 6: Comparative Correlation Analysis**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.992	0.984	0.937	2.669

Table 6 summarises and finds the value of adjusted R squared as 0.937, which suggests that there is a variation of 93.7% on the financial stability due to internal audit quality, internal audit function, and internal audit control, and audit standards are at 95% confidence interval. This depicts that 93.7% changes in financial stability could be a direct impact of changes in internal audit quality, internal control mechanism, internal audit function, and audit standards. The study establishes that there is a positive relationship between the financial stability and internal audit quality, as shown by the correlation coefficient of 0.992.

## CONCLUSION

This study is aimed at examining the impact of internal audit quality on financial stability, and how the role of quality audit is justified in such findings. The results of the study indicate that internal audit quality has a positive impact on the financial statements and financial stability of the organisation, from the descriptive analysis, regression analysis, and null hypothesis, which was found to be true. From the above empirical evidence and analysis based on the sampling, it can be seen that with auditors with skills and competence, following the standards and best practices, and applying the agency theory, there are increased chances for

a company to achieve financial stability. Financial stability is a condition where a company is in a stable position in the market and financial aspects; in case of an unstable situation, it can misstate and commit fraudulent activities to showcase a stable position. This suggests that financial statement is the outcome of profound application of internal audit within an organisation. The internal audit quality will definitely act in economising the finance availability and stability within an organisation. Quality internal audit enables the management to effectively and efficiently deal with the financial crisis. The study depicts that 93.7% changes in financial stability could be a direct impact of changes in internal audit quality, internal control mechanism, internal audit function, and audit standards. The study establishes that there is a positive relationship between the financial stability and internal audit quality, as shown by a correlation coefficient of 0.992. The respondents, on an average, agreed to the statement that there was impact of internal audit quality on the financial performance of the company. This reveals that in the opinion of the respondents, internal audit could be recognised as an effective way to solve financial matters within the organisation.

## SUGGESTIONS AND RECOMMENDATIONS

Several suggestions and recommendations were supported by respondents. It is strongly suggested to the organisations to involve the subordinates in the process of planning and decision-making, to improve the existing standards of audit workings in the organisations. Further, it is suggested to bring forth a proper procedure to look into the performance measurement task of the auditors. Team work applications are definitely the better way to improve the existing standards; we strongly recommend qualitative participation from both the auditors and the management, as the respondents 'agree' to the statement, and the calculated standard deviation was 1.089, which is more than 1. This implies varied responses to the statement. In addition, the audit committee must provide regular feedback to the employees to eliminate loopholes at the root level.

## LIMITATIONS

The results of the analysis are from a small portion of a very large industry. Limitations of the study include limited sample size and responses received from limited variables. Although the sample size is limited, the value derived from the study considers a significant portion of the respondents from the background of internal audit; therefore, the usefulness of the research is not questionable. However, future studies may

increase the duration of the period of study and may include variables from the global auditing practices, apart from the variables used during the study.

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