

# Internal Audit Quality in Saudi Arabia: A Categorical Regression Analysis

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## Abstract<sup>3</sup>

The turn of the millennium witnessed financially earth shaking events such as the sudden bankruptcy of Enron in 2001 and the collapse of Arthur Anderson in 2002 followed by the global financial crisis which reached its climax in 2008. These events raised concerns about the credibility of auditing as a means of judging the financial positions of business companies. Consequently the interest of academicians, practitioners and policy makers rose considerably in issues related to audit quality. Researchers, particularly in developed countries and also in LDCs set out to investigate the nature and determinants of audit quality. While research on external audit quality received the bulk of attention, internal audit quality apparently remains under-researched. The present study thus represents an endeavour to fill this gap by investigating internal audit quality for the case of Saudi listed companies on the basis of the perceptions of external auditors affiliated with Saudi audit companies. Using categorical regression analysis, findings indicate that a model that measures internal audit quality as "capacity of the IAU to ensure meeting company's strategic goal and objectives" yields statistically significant results both for the model itself and for the predictor variables coefficients. The predictor variables of the regression included "the extent to which staff members' skills cover pertinent disciplines", "percentage of IAU budget to company budget", "getting audited agreement to audit findings", "how many internal auditors available per 1000 employees", "extent to which IAF covers various audit aspects". The foregoing suggests that "capacity of IAU to ensure meeting company's strategic goal and objectives" is a viable measure for internal audit quality. Consequently, the above predictor variables are important determinants of internal audit quality. Two of these predictor variables pertain to the competence and adequacy of the IAU staff members and a third important factor pertains to the audit procedures followed within the organization. Organizations, academicians and practitioners might find these results useful. Further research may travel up the same road; i.e investigate further IAU staff characteristics, audit procedures and processes within the organization and their influence on internal audit quality.

**Keywords:** Audit quality, categorical variable, internal audit, IAU staff

## 1. Introduction

Equity investors rely to a considerable extent on the financial statements issued by business companies in making their investment decisions. Since the audit process looms large in determining the quality and reliability of financial statements, it was only natural for the audit quality process to become the center of considerable debate in the aftermath of the stormy events involving the bankruptcy of Enron in 2001 and the collapse of Arthur Anderson in 2002. These developments and the onset of the world financial crisis in recent years raised legitimate concerns about the audit quality of firms and whether the financial positions of corporate firms are being subjected to adequate scrutiny. Under this state of affairs it became not unusual to

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criticize auditing or voice skepticism about the quality of audits done by audit firms especially the larger ones. An important fallout of this situation was the emergence of regulatory changes that were articulated to enhance corporate governance and the efficacy of audit quality of firms. To this effect, the United States federal government for example issued the so called Sarbanes-Oxley Act in 2002 to restore the public confidence in US public corporations. Similar developments in Australia led to the passage of the CLERP9 reforms to cite some examples.

The aforementioned developments heightened interest in research related to the issue of corporate governance in general and audit quality in particular. As defined by encyclopedia and the standards, corporate governance consists of four pillars: board of directors, management, the internal auditor and the external auditor (IIA 2005; Wikipedia www). This paper is concerned with the internal audit function. As is well recognized in the literature, an internal audit function (IAF) which performs its task effectively and comply with standards can be a strong source of support for the board of directors and constitute an important element of the governance mechanism (ECIIA, 2005; Sarens et al., 2009) and an important resource to audit committee (Raghunandan et al., 2001). Indeed it has been arguably pointed out that IAF should not only exist in a firm, but also be effective and have an acceptable level of quality (Prawitt et al., 2009; Spekle et al., 2008). This is not to say that having IAF by itself ensures good internal control but quality internal audit activity is very likely to produce better controls (Hirth, 2008).

On the other hand, weak internal control which fails to prevent fraud can be extremely costly to the economy. For example, in the US fraud was found to cost the economy about \$600 billion annually (ACEE, 2004). Because of this and as a result of the recent business scandals, adoption of the IAF, either forcibly by law or on a voluntary basis, was embraced in a large number of companies (Spekle et al., 2007). Some stock exchange authorities (for example NYSE, Malaysian Stock exchange) require that listed companies maintain IAF as an important player in corporate governance (Sarens et al., 2009) on the basis that it helps management in both monitoring internal control and risk management (Carcello et al., 2005; Chambers, 2005; Colbert, 2008). The growing number of internal auditors is a sign of the growing recognition of the IAF as an important contributor to corporate governance and a clear signal that more attention be given to the task of internal audit, its quality and value. Although it would not be possible to eradicate cases of audit failure altogether as by its very nature auditing has inherent limitations (Ricchite, 1988; IFAC, 1994a), reducing the risk of fraud to an acceptable level can be achieved with quality auditing. Also, with the help of IAF, CPA firm might reduce its testing (Colbert, 2008).

Internal auditing is an important function for management, board of directors, audit committee and external auditors. However, if it lacks quality, IAF may not be reliable and the risk that its activities may not be done properly becomes high. Cohen et al. (2000) reported that although the presence of IAF is an important element in affecting corporate governance, there is some concern about its strength and efficacy. Quality IAF will directly or indirectly enhance the quality of audit committee, corporate governance, financial reporting and external auditing. An effective IAF plays a significant role in eliminating fraud and errors and strengthening internal control and external audit (Goodwin and Seow, 2002). It also constitutes an important resource to the audit committee (Raghunandan et al., 2001) and impinges heavily on the cost reduction process and performance improvement (Bhatti and Awan, 2004). Recently audit regulations have also encouraged external auditors to use the work of others, i.e. IAF if the latter is judged to be of acceptable quality. Consequently, IAF of reliable quality might presumably reduce non-detection risk (PCA0B, 2007). Quality IAF is also expected to reduce external audit fees and cost (Felix et al., 2001) and this was evidenced by Prawitt et al. (2009).

Although there is a large volume of research with regard to audit quality in the developed nations, the great majority of this research focuses on external audit and audit committee. Quality of external auditing has long been the focus of attention for researchers. For example, Deis and Giroux (1992) sought to establish audit quality measures in the public sector in the early 1990s. In the meantime, Sutton (1993) set out to determine the factors that could affect the internal audit process. Research with regard to internal audit quality remains rather scanty and almost all of the issues pertaining to internal audit function are in need for more research. For example, Prawitt et al. (2009) reported that the effect of internal auditing on the quality of

external financial reporting has received only little attention by researchers. On the other hand, research on audit quality in less developed countries is very little (Goodwin and Seow, 2002).

IAF can provide a great service to the organization but only when it is of good quality. Indeed Goodwin and Seow (2002) found that external auditors place more weight on IAF as a mechanism for detecting weaknesses in controls preventing and detecting fraud, but when external auditors are doubtful about the quality of IAF, then their reliance on it is diminished (AL\_Twaijry, 2000). Quality IAF is more likely to work as a prevention and detection mechanism and thus reduce internal control risk (Prawitt et al., 2009).

As reported by Prawitt et al. (2009) there is no consensus on the measurement of the quality of IAF and studies on this issue are so few that it may reasonably be stated that there is a gap that needs to be filled here. The present study seeks to fill some of the gap by studying some measures for IAF quality and the main determinants of this quality from the perspective of external auditors. Since external auditors are potentially a major beneficiary from the internal audit function, their views may constitute a very informative source for underpinning the nature of the internal audit function and the important factors that bear on its quality and the quality of the internal audit unit (IAU) which undertakes the internal audit function. This research might be beneficial for both academicians and practitioners since both of them are very much interested in how to evaluate the quality of an internal audit unit. The rest of the paper is organized as follows: section 2 gives a review of the literature on the subject; section 3 describes the variables used, data and methodology. Section 4 outlines research findings and section 5 concludes the study.

## 2. Literature Review

In order to measure audit quality and study its determinants, it is necessary of course to give a precise definition to the concept itself. Perhaps the most widely cited definition is the one suggested by De Angelo (1981) which defines audit quality as a twofold process. The first hinges on capacity or capability to detect material misstatements and the second on the propensity to report irregularities discovered. Another well publicized definition of audit quality is that of Palmrose (1988) who emphasizes the level of assurance aspect of auditing. Since an audit is meant to reassure investors that financial statements are reliable indicators of the financial position of business firms then audit quality is seen as the extent to which financial statements are error-free. Although the De Angelo's definition hinges upon the audit process while palmrose's definition turns on audit results, a common feature of both types of definitions is that audit quality is unobservable prior to audit performance.

Several other definition crafted by other authors (e-g Titman and Trueman, Simunic and Stein (1981), Khurana and Raman (2004) among others) but they all share the unobservability feature. It follows that in order to measure audit quality, some proxy is needed for the researcher to probe into the relationships between audit quality and the other variables that might spur variability in quality. As alluded to above, much of the research on audit quality was in fact devoted to external rather than internal audit. As a result, most of the proxies that were cranked out to measure audit quality were in fact designed to measure external audit quality. However, since the present study is more concerned with internal audit quality, external audit quality will be considered only briefly. With respect to this it might be appropriate to point out that audit firm size has widely come to be regarded as the proper proxy for external audit quality. It was asserted that large size firms are characterized by two distinguishing features :1) they can make greater expenditures on training and audit technology thus raising efficiency , and 2) deflect pressures to make unjustifiably favorable audit reports for any single auditee because they deal with a multiplicity of auditees. Along these lines Defond and Lenox (2011) examined the effects of a regulatory Act (SOX) on external audit quality .They found that SOX led to the exit of 50% of small audit firms from the market and a doubling of the average number of clients for those small firms that remained in the market. They concluded that exiting small firms were high cost and thus low quality firms. They saw this as a confirmation of the widely held belief that large audit firm size is the sine-qua-non of external audit quality. Al-Ajmi (2009) investigated the relationship between audit quality, audit committee, and audit firm size in Bahrain from the perspective of credit and financial I

analysts. His findings indicated that both an effective audit committee and large audit firm size reflect positively on audit quality.

Proxies other than audit firm size were also suggested to measure external audit quality. Ghosh and Mood (2005) for example emphasize the importance of auditors' tenure. They argue that long tenured auditors may compromise their neutrality or independence in return for maintaining long standing relations with their clients which would undermine audit quality. Other researchers have postulated a positive relation between audit quality and multiple clients audit firms (Wooten, 2003). The point is that multiple clients audit firms with clients in the same industry are more likely to appreciate with greater precision the inherent audit risks that might exist in a certain industry. A host of other external audit quality measures were also suggested including audit fees, economic dependence, reputation etc.

Turning to the internal audit quality, some researchers have also been done here although the volume of work accomplished is less than in the external audit quality case. The audit quality measures employed here largely originate from the aforementioned pillars of corporate governance: board of directors, management, the internal auditor and the external auditor.

Some studies focused on quality corporate governance in general or on the audit committee in particular. An indication of quality corporate governance is the reduction of the undesirable effects of earnings management along with fraud and errors (Dechow et al., 1996; McMullan, 1996) and this produces quality internal control which is a function of the quality of the control environment represented by the board of directors and audit committee (Krishnan, 2005). Goodwin and Seow (1998, 2000) argued that listed companies should not only have audit committees in place, but that these committees must be of sound quality which triggers a negative correlation between the effectiveness of committees and internal control weaknesses (Zhou et al., 2007). As seen by Rainsbury et al. (2009) the collapse of many corporations during the 2000s has led regulators to focus more on the quality of corporate governance via improving audit committees' effectiveness.

A quality audit committee could have considerable power within an organization which might be achieved in case an audit committee is large enough and its members are competent (Kalbers and Fogarty, 1993).

The management of an organization or a division is a source of value and quality. Kerns (2005) suggested five key factors which drive quality enhancing behavior by management: values, ethics, purpose fullness, active learning orientation and measurability. He held the view that when the leader of a team has morally anchored values and acts accordingly, his team would eventually sustain ethical behavior. For example IIA standards require directors of internal audit units to effectively manage their unit and establish a risk-based plan (Attribute Standard, 2010). Adherence to this requirement would imply that management of the IAU plays a significant role in the internal audit quality. Similarly AICPA proposes a list of questions to help audit committees assess performance and effectiveness of the internal audit team (AICPA, 2004). This list covers all important aspects such as size and staff of IAU, plan and procedures of the audit, reporting and quality assurance review. Size of the IAU could significantly affect the internal audit quality since a relatively small size of the IAU may not do the right job in the right time. Like the external audit firm, whose size is considered to be a dominant factor of audit quality, the internal audit unit size, in terms of personnel and budget, is also an important factor of the internal audit quality. This correlation between budget and quality for IAU was documented by Francis (2004) and Ashbaugh- Skaife et al(2007)

Gorgan and Cook (2009) pointed out that the staff of a firm is a key element in its success. They see the competitiveness of small to large organizations in private, public, government and even the non-profit sectors as heavily dependent on the presence of competent employees who are eager to advance in their careers and develop their professional skills. Kerns (2005) on the other hand emphasized as a key element of success the ethical behavior of the organizational community and its members. Bhatti and Awan (2004) studied the role and technique of IAF in improving quality of sports goods in Pakistan Through surveying 100 ISO9000 certified companies and found that about 10% of the 88 respondent firms have internal quality audit departments with qualified personnel who were instrumental in reducing defects by 65%. Internal auditors'

good relation with the production staff (auditees) was highlighted to be an important element of the audit success. In a related investigation, Sarens et al. (2009) looked at what could possibly drive audit committee to support IAF and how the IAF can in turn provide comfort to the audit committee. The study was based on a sample of Belgian companies' employees and concluded that internal auditors who have sufficient skills and who are deeply involved in the improvement of internal control brings measurable level of compact to the audit committee. The skills of internal auditors come from both educational background (either a cadmic or professional) and experience which is gained with passage of time. Consequently and based on the learning curve effect, seasoned auditors are considered of higher quality (Jahnson et al., 2002) since new auditors need to know more about the company which takes time. In summary, when internal auditors are skilful, educated and experienced, the quality of the internal audit function will tend to be high.

The effect of the independence of the auditor, whether internal or external, is a dominant factor in audit quality (Favere - Marchesi, 2000 ). Since the independence of the external auditor is more understandable, there is a call for outsourcing internal audit. Caplan and Kirschenheiter (2000) demonstrated that the quality of the providers of outsourcing internal audit service is better than those within the organization. Power and Terziovski (2007) studied audit quality in Australia by focusing on perception of non financial audit and their clients. His findings indicated some major constraints pertaining to some aspects of auditor independence, since objective reporting is an essential element of independence, IIA standards require the directors of and IAU to report directly to the audit committee (attribute standard 1110). This should strengthen the independence of an IAU and this enhances audit quality.

Another dimension of the analysis is the internal control within an organization. Indeed the focus of the IAF is the internal control where internal auditors are involved in the day - to - day activity. To operate effectively, internal auditors need to sufficiently understand the entity's operation, strategies, corporate culture as well as discover and report mistakes (Spekle et al., 2007). Calder (1997) argued that to have an effective auditing, 1. Audit procedures need to be defined, 2. Auditors must be trained and knowledgeable in all auditing processes, 3. Coopertation must exist between auditors and auditees, 4. Efficient information retrieval (reporting strategy and follow up) must be available. In their study, Power and Tareziovski (2007) found that clients have an opposite perception to auditors in that they believe what they are getting from auditors is less than what they would like to have especially in the continuous improvement focused auditing while the compliance auditing they are getting is more that what they need.

Auditing standards stipulate that a quality assurance program be in place. This is because quality review of audit performance and audit activity monitoring are expected to enhance audit quality (Favere- Marchesi, 2000). As such, quality IAU should be subjected to self assessment and evaluated via recommendation standing, customer feedbacks, individual productivity as well as independent quality assessment review (Hirth, 2008). The external audit quality review of internal audit work and effectiveness of the internal audit unit can be done by external auditors (Colbert, 2008) or audit committee (Sirens et al., 2009). Audit committee is expected to enhance the quality of both internal and external auditing (Gendron and Bedard, 2006, Gendron et al., 2004) and also rely on them in evaluating the effectiveness of internal control (Beasley et al., 2009). Quality review assurance can also be carried out by special agencies or professional bodies; audit quality is also strongly influenced by audit reporting. What to report, when and to whom are essential questions that strongly affect audit quality. Francis (2004) argued that the informational value in the audit report is a key element of audit quality whereas Gadroon and Beard (2006) found the internal audit report to be an essential element whereby the audit committee members comfort themselves with the company's internal control. This is because risk assessment can be effective only when adequate quality data is available on time and on a regular basis (Khanna and Kaveri, 2008).

The foregoing shows that the internal audit quality is measured and influenced by a multiplicity of factors including management and staff size of IAU, independence, process, reporting and satisfaction. This allows the internal audit quality to be measured in a variety of ways and by many different variables as fits the purpose of the researcher. Likewise there are so many factors that affect internal audit quality and therefore the effectiveness of the IAU. Thus for different cases and different situations one would expect

different dependent variables and different explanatory variables to be used in modeling internal audit quality. In the next section, we turn to these and other relevant issues.

### **3. Data and Methodology**

As stated in Section 1, the present study is based on the perceptions of external auditors about the factors influencing internal audit quality of firms. The scope of the study covers listed companies in Saudi Arabia. Consequently a questionnaire regarding external auditors' perceptions of various aspects of the internal audit function was distributed to about 100 officials in audit companies and whose positions in these companies ranged from senior executive to audit executive, audit manager and auditor. Out of the 100 officials approached, about 86 responded positively by handing over their completed valid questionnaires. For each question included in the questionnaire, the respondent was asked to evaluate the importance of the factor under consideration in influencing audit quality by assigning to it a value between 0-10 where 0 means no relation to audit quality, 5 means moderate importance in quality measure and 10 means extremely important for quality measurement. Since this means ranking different categories in a variable as per their importance for audit quality, then the variables under consideration are what is usually termed categorical variables. In fact since the categories in each variable can be ranked according to their levels (e.g moderately important category is ranked 5) it will be appropriate to call this type of categorical variables " ordinal variables ". The questionnaire included several questions (factors) to which respondents were asked to state their evaluation as explained above. Although internal audit quality can be measured in many ways as was explained in Section 2, we opt in this study for three commonly accepted measures which are:

1. Capacity of the IAF to ensure that the company's strategic good and objectives are met.
2. IAU has a written charter and a set of core values.
3. IAF covers all different assessments of the company (risk management, control process, ethics, programs, activities, etc). The predictor variables on the other hand will include the following:
  1. The extent to which staff members' skills cover pertinent disciplines.
  2. Percentage of IAU budget to company budget.
  3. Getting auditees' agreement to audit findings.
  4. How many internal auditors are available per 1000 employees.
  5. IAU staff experience.
  6. Extent to which IAF covers various audit aspects (financial, operational etc).
  7. Providing report recommendations.

The three measures of audit quality mentioned above will constitute the dependent variables in the analysis and will be used to consider three internal audit quality models each of which contains one of these dependent variables on its left hand side and what independent variables as will turn out appropriate on the right hand side.

To estimate the models proposed above, the method of categorical regression analysis will be used. As is well known, when the data are of the numeric type, standard linear multiple regression is the method which is commonly used to relate a dependent variable to other explanatory independent variables. However, it would be problematic to use the standard linear regression to handle categorical variables. One way to do that is to recode them as indicator variables, but the estimated model in this case will involve different intercepts and different slopes for the levels of the categorical variables and the number of parameters would be too large. Alternatively, the categorical variables might be dealt with as interval level variables. This approach involves coding the variables in a rather ad hoc fashion and this renders meaningful interpretations of the results almost impossible. Therefore when variables are all categorical or both categorical and numeric, it would be appropriate to use categorical regression analysis. Categorical regression analysis "transforms" categorical variables into numeric variables through the use of the optimal scaling methodology along the lines drawn by the so called Gifi system (Gifi, 1990) whereby the categorical variables are

quantified according to some particular scaling level. In this optimal quantification process, the optimal regression coefficients will be reached but only some of the information in the observed categorical variables will be retained in quantified variables but other information will be lost. This must be taken into consideration when choosing the scaling level and type of transformation to be used in the optimal scaling process.

**4. Results and Discussion**

Using categorical regression analysis three models were estimated for the three measures of internal audit quality mentioned in Section 3 above namely: capacity of the IAU to ensure that the company's strategic goal and objectives are met, IAU has a written charter and a set of core values, IAF covers all different assessments of the company (risk management control process, ethics, programs, activities etc). The estimation for the first model involving the measure of capacity of the IAU to ensure meeting company's strategic goal and objectives indicated the significance of the model when regressed against only five of the seven predictor variables under consideration namely the extent to which staff members' skills cover pertinent disciplines, percentage of IAU budget to company budget, getting auditees' agreement to audit findings, how many internal auditors are available per 1000 employees, extent to which IAF covers various audit aspects (financial, operational etc). For this model, the coefficients of all five predictor variables were statistically significant. On the other hand, the estimates for the other two measures yielded statistically insignificant results for both the models and the coefficients of the predictor variables. Consequently, we exclude these two models from further consideration here. However, the results for the model involving "audit fulfillment of strategic goal and objectives of the company" are reported in the tables below. Table 1 reports the determinant  $R^2$  of this categorical regression model which is 0.75. This means that about 75% of the variation in the quantified response variable " audit fulfillment of strategic goal and objectives " is accounted for by the quantified or optimally transformed predictor variables mentioned earlier.

**Table 1: Model Summary**

<b>Multiple R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Apparent Prediction Error</b>
0.866	0.750	0.709	0.250

- Dependent Variable:  
Audit fulfillment of strategic goals
- Predictors:  
Members' skills coverage of disciplines,  
Percentage of IAU budget to company budget aspects,  
Coverage of audit function,  
Get auditees' agreement of findings,  
How many internal auditors per 1000 employees

Table 2 below reports the standardized coefficients of the explanatory variables. In categorical regression only standardized coefficients are reported.

All the coefficients are statistically significant and carry the expected signs except for " percentage of IAU budget to company budget" which carries a negative sign. On an apriori basis, it is expected that all the transformed five predictor variables would have a positive effect on internal audit quality as measured by the transformed "audit fulfillment of strategic goals" which is the dependent variables. This expectation holds true for all the estimated coefficients except "percentage of IAU budget to company budget". However this may not be as counter-intuitive as it first looks. One may argue that for example, if ordinary sized firms maintain some optimal percentage of the IAU budget to company budget, they may not need to increase the IAU budget and hence the percentage of the IAU budget to that of the company except in the event of an expansion of the company itself. In such cases, a higher than optimum sized IAU budget may imply a decline

in the marginal benefit from the marginal expenditure on IAU, lower capacity to achieve company goal and objectives and hence lower internal audit quality.

**Table 2: The Standardized Coefficients of the Explanatory Variables Coefficients**

	Coefficients				
	Standardized Coefficients		df	F	Sig.
	Beta	Bootstrap (1000) Estimate of Std. Error			
Members' skills coverage of disciplines	0.375	0.159	2	5.603	0.005
Percentage of IAU budget to company Budget	0.226	0.093	2	5.892	0.004
Aspects coverage of audit function	0.473	0.170	3	7.713	0.000
Get auditees' agreement of findings	0.179	0.100	2	3.217	0.046
How many internal auditors per 1000 employees	0.173	0.097	3	3.147	0.030

The coefficients for the other variables are all statistically significant and have the "right" signs. The largest coefficient is the one for "aspects coverage of audit function" which is 0.473. This figure indicates that an increase in the quantified value of this predictor variables raises the quantified internal audit quality variables, but going back to the original observed categorical variables, this figure implies that an increase by a single measurement level in "aspects coverage of audit function would lead to an increase by 0.473 of one level in the dependent internal audit quality variable. Other coefficients may be interpreted in a similar fashion.

**5. Conclusion**

Audit quality has become the object of increasing attention and considerable debate in the aftermath of such stormy events as the sudden bankruptcy of Enron in 2001, the collapse of Arthur Anderson in 2002 and the beginning of the world financial crisis in the year 2008. These developments raised questions about the efficacy of auditing in revealing the true financial positions of business companies. Consequently, interest rose considerably in audit quality related research and studies particularly in developed countries although less developed countries were also present on the scene. The literature appears to be rampant with research on the nature and determinants of external audit quality but internal audit quality did not receive as much attention. Consequently the present study sought to contribute in filling this gap by studying internal audit quality in the case of Saudi listed companies as seen from the perspective of external audits affiliated with Saudi audit companies. A questionnaire was distributed to about 100 executives in these audit companies asking them to state their evaluations of a number of factors commonly believed in the profession to influence internal audit quality. From among the 100 auditors, 80 returned their completed questionnaires the data from which constituted the backbone of this research.

Three models were considered for estimation using the categorical regression method. The estimates for two of the models involving the internal quality measures "IAU has a written charter and a set of core values" and "IAF covers all different assessments of the company (risk, management, control process, ethics, programs, activities etc)" turned out to be statistically insignificant and so were not considered further.

On the other hand, the model involving the measure of "capacity of the IAU to ensure meeting company's strategic goal and objectives" turned up significant results both for the model itself and for predictor variables coefficients. The predictor variables included in the regression were" the extent to which staff members' skills cover pertinent disciplines", "percentage of IAU budget to company budget", "getting auditees' agreement to audit findings" ,"how many internal auditors are available per 100 employees", "extent to which IAF covers various audit aspects". The results of this study suggest that "the capacity of IAU to

ensure meeting company's strategic goal and objectives " is a viable measure for internal audit quality. This looks plausible especially in view of the comprehensive nature of this measure. Companies that are able to meet their strategic goal and objectives would be expected to be high on internal audit quality. Further, among the predictor variables of this measure of internal audit quality, two pertain to the competence and adequacy of IAU staff members and another important factor pertains to the audit procedures followed within the organization. So, Organizations and practitioners might want to consider these factors among others when setting internal audit plans for business firms. Nevertheless, it might be fair to state that the state of affairs in internal audit quality leaves a lot to be desired and more research is probably needed to forge appropriate measurement tools and reach better understanding of the factors influencing internal audit quality.

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