

The impact of internal audit on organizational performance of selected Jordanian companies

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Abstract

Internal audit comprises the plan of the organization and coordinates all the methods adopted within the business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. It determines the reliability, reality, and integrity of the financial and the operational information that comes from different organizational units on which appropriate business decisions at all levels of management are based. Internal audit is an independent, material and consultancy activity, which adds value and improves the functioning of an organisation. Successful implementation of internal audit tasks means that it must be independent meaning thereby company's management should in no way influenced by its work, information, conclusions, and evaluations. The present paper examines the impact of internal audit on the organizational performance of Jordan Electric Power, Jordan Telecom, and National Petroleum. A sample of 290 employees has been selected for the study. Data have been collected through questionnaires and analyzed with the help of multiple linear regression. Internal audit is used as the independent variable whereas organizational performance is the dependent variable. The analysis of data revealed that there is a significant impact of internal audit on the organizational performance in companies under study.

Keywords: internal audit, organization, performance, regression

1. Introduction

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal audit is an independent, material and consultancy activity, which adds value and improves the functioning of an organisation. It aids the organisation to achieve its aims by means of a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and the management process. It serves as an important link in the business and financial reporting processes of all organizations. Internal auditors play a key role in monitoring a company's risk profile and identifying the areas to improve risk management. Their aim is to improve organizational efficiency and effectiveness through constructive criticism (Goodwin, 2003) [4].

Internal audit control comprises the plan of the organization and all methods and measures adopted within a business to safeguard operational efficiency, and encourage adherence to prescribed managerial policies. It has five main components namely verification of written records, analysis of policy, evaluation of the logic and completeness of procedures, internal services, and staffing to assure that they are efficient and appropriate for the organization's policies, and reporting recommendations for improvements to management (Hutchinson & Zain, 2009) [10]. Internal Audit has become an indispensable management tool for achieving effective control by detecting the weaknesses in management operations. Internal auditing provides a basis for correcting deficiencies that have eluded the first line of defense before these deficiencies become uncontrollable or are exposed in the external auditor's report (Sarens & De Beelde, 2006) [13].

Internal audit is a broad term which means a number of checks and controls exercised in a business to ensure efficient and economic working. Internal audit is best regarded as indicating

the whole system of controls, financial and otherwise, established by the management in the conduct of business, including internal check, internal audit and other forms of control. It involves a sort of vigilance and direction over important matters like budget and finance, purchases and sales and internal administration by the management; for example, in case of proprietary concern, such a control would be exercised by the proprietor while the case of a joint stock company, it would come from the directors. Thus, it may be stated that internal audit provides a measure for the management to obtain information, protection, and control which is quite important for the successful working of a business organization (Collier & Gregory, 2012) [3]. Internal audit is used as the independent variable whereas organizational performance is the dependent variable. Professional competence, internal controls, internal audit standards, independence of internal audit are used as the proxy measures of internal audit. Jordan Electric Power, Jordan Telecom, and National Petroleum are the companies chosen by the author for analysis.

1.1 Characteristics of Good Internal Control

- There should be a well-developed plan of organization with a delegation of proper responsibilities at various levels of operational hierarchy.
- There should be a scientifically developed system of record procedures with a view to maintain proper controls over capital and revenue organization.
- A system of healthy practices and traditions is also necessary for the performance of duties and activities of various departments of the organization.
- The personnel engaged in the business should be of high quality and character with a thorough understanding of their responsibilities and a proper background of training

and ability. After all, controls are exercised by the personnel engaged in the business and qualified people can better make use of such controls.

2. Review of Literature

Ahmad (2007) in the article entitled, “*Auditors’ Compliance with International Standards in Audit*” examined the degree of compliance of Jordanian auditors with ISA. It was found that Jordanian auditors complied with all audit standards due to strict conditions and requirement of Jordanian Laws wherein the audit profession should be assigned to a Certified Public Accountant (CPA) as well as imposing strict legal liabilities. The study recommended that there should be more attention by auditors and institutions regulating the audit profession in Jordan towards compliance with audit standards, especially those concerning internal audit and imposing on auditor’s responsibility to detect fraud in financial transactions and statements at the appropriate stage. Hung & Han (2010) ^[11] in the research paper entitled, “*An Empirical Study on Effectiveness of Internal Audit for Listed Firms in Taiwan*” tried to identify the factors that affect the effectiveness of internal audit for listed firms in Taiwan. The authors use a sample of 210 listed manufacturing firms. Data was collected through a questionnaire which was mailed to the management, the head of the audited department, and the head of the internal audit department of each company. The findings revealed that management’s attitude, controller’s attitude, the probability of internal auditors’ promotion, the implementation of performance evaluation, the establishment of the job description, and the training and professional abilities of the internal auditor were the factors that affect management’s perceiving effectiveness. Moreover, the research highlighted the factors that affect the effectiveness of the head of the audit department. These include internal auditor professional abilities, and the combination of organization formalization and professional abilities. Besides, the study further investigated factors that affect the progress of annual audit plan. These were: management’s attitude, controller’s attitude, the organization position of internal audit department in a company, the probability of internal auditor’s promotion, the implementation of performance evaluation, the establishment of job description, the training and professional abilities of internal auditor, and the combination of organization formalization and the professional abilities. Obert & Munyunguma (2014) ^[12] in the research paper titled, “*Internal audit perceptions and their impact on the performance of the internal audit function*” examined the factors causing negative perceptions of internal audit and the impact on the performance of the internal audit function. Data was collected through questionnaires which were distributed to managers, section heads, supervisors and clerical staff. The research used exploratory and qualitative techniques. The causes of negative perceptions were; auditors failure to meet expectation gap, the bad reputation of an auditor, the quality of audit staff, level of professional competence and the absence of independence and objectivity in internal audits. However, the research suggested that internal audit needs to adopt a new mindset in view of the changes taking place in the business environment, to correct the errors of financial scandals, intense focus on corporate governance. The study revealed that internal audit can be improved by getting

adequate support from management, recruiting qualified and professional auditors. Dahir & Omar (2016) ^[5] in the research paper entitled, “*Effects Of Internal Audit Practice On Organizational Performance Of Remittance Companies in Modadishu, Somalia*” evaluated the effect of internal audit practice on organizational performance of remittance companies located in Modadishu, Somalia. The target population of the study was remittance companies located in Bakara market. The sample size was 200 respondents selected by using Slog van’s formula. Data was collected through questionnaires set on Likert scale and analyzed using SPSS version 22. Internal audit independence, internal audit quality, internal control system and audit risk were the variables of internal audit used in the study. The findings indicated that there was a significant positive relationship between internal audit practice drivers and organizational performance of remittance companies in Mogadishu, Somalia. Albkour & Chaudhary (2017) ^[1] highlighted that internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an enterprise to achieve its objectives and improve the effectiveness of risk management, control, and governance processes. Besides, the researchers evaluated the impact of internal audit on organizational performance of selected Jordanian banks. The sample size of the study was 145 employees. Data was collected through questionnaires and analyzed with the help of multiple linear regression. The findings of the study revealed that there is a significant impact of internal audit on organizational performance of selected banks.

3. Objectives of the Study

- To elucidate the concept of internal audit in brief.
- To examine the impact of internal audit on the organizational performance of Jordan Electric Power.
- To find out the impact of internal audit on the organizational performance of Jordan Telecom.
- To analyze the impact of internal audit on the organizational performance of National Petroleum.

4. Hypotheses of the Study

- H0₁:** Internal audit has no significant impact on the organizational performance of Jordan Electric Power.
- Ha₁:** Internal audit has a significant impact on the organizational performance of Jordan Electric Power
- H0₂:** Internal audit has no significant impact on the organizational performance of Jordan Telecom.
- Ha₂:** Internal audit has a significant impact on the organizational performance of Jordan Telecom.
- H0₃:** Internal audit has no significant impact on the organizational performance of National Petroleum.
- Ha₃:** Internal audit has a significant impact on the organizational performance of National Petroleum.

5. Research Methodology

5.1 Collection of Data: The author collected data with the help of a well-designed questionnaire set on a five point Likert-scale from the employees working in selected companies. A total of 450 (150X3) questionnaires were distributed wherein 160 were rejected and 290 were accepted for analysis.

5.2 Sample Size: Table 1 shows the sample size. The size of the sample of the research is 290 employees.

5.3 Statistical Tool: There are four independent variables namely professional competence, internal control, internal audit standards, and independence of internal audit whereas organizational performance is the dependent variable. Therefore, multiple linear regression has been applied as the statistical tool to measure the impact of internal audit on organizational performance through MS-Excel.

Table 1: Sample Size of the Study

Questionnaires	Selected Companies			Total
	Jordan Electric Power	Jordan Telecom	National Petroleum	
Distributed	150	150	150	450
Accepted	109	86	95	290
Rejected	41	64	55	160
Sample Size	109	86	95	290

Source: Field Survey Conducted by the researcher

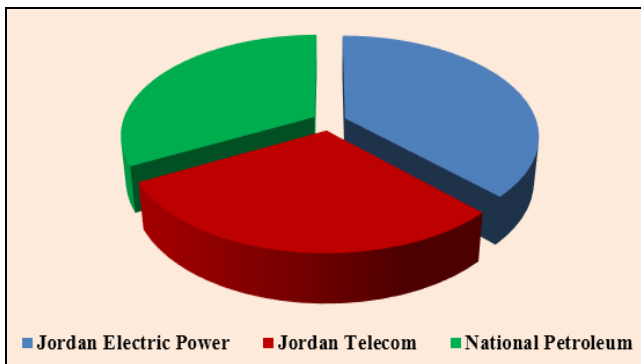


Fig 1: Sample size of the Study

Table 3: Regression Model of Jordan Electric Power

Model-1	Unstandardized Coefficients	Standard Error	Significant Value
Professional Competence	0.504	1.668	0.000
Internal Controls	0.591	1.167	0.001
Internal audit Standards	0.499	1.374	0.000
Independence of Internal Audit	0.346	1.078	0.0067
Adjusted R Square: 0.623			

Dependent Variable: Organizational Performance

Table 3 shows the regression model of Jordan Electric Power. The value of adjusted R square is 0.623 which means 62.3 percent variation in organizational performance in the company is explained by the internal audit and the rest of the variation (1-R²) is an unexplained variation. Besides, the unstandardized beta coefficient gives a measure of the contribution of each variable to the model. A larger value indicates that a unit change in the predictor variable has a larger impact on the criterion variable. The value of unstandardized beta coefficient on the variable professional competence is 0.504 which is an indication of the positive impact of professional competence on organizational performance. The significant value of this variable is 0.000 which is less than 0.05 at 95 percent confidence interval. However, the value of beta coefficient on internal controls is 0.591 and the significant value corresponding to this variable is 0.001. Moreover, the values of unstandardized beta coefficients on the variables internal audit standards and

6. Reliability

The most widely used objective measure of reliability is Cronbach alpha. The value of α greater between 0.7 and 0.9 is considered good and the value of α greater than 0.9 is considered excellent. Table 2 highlights the reliability of all four variables of the study. The value of Cronbach alpha on the variable internal control is the maximum. It has been found that Cronbach alpha of all study variables is ranging from 0.7 to 0.9 and the overall reliability is 0.829. It documents that the data is reliable for hypothesis testing.

Table 2: Reliability of all Dimensions

No.	Dimensions	Cronbach Alpha
1	Professional Competence	0.866
2	Internal Controls	0.912
3	Internal audit Standards	0.803
4	Independence of Internal Audit	0.811
Overall Reliability: 0.829		

Source: Output of MS-Excel

7. Hypothesis Testing

Ho₁: Internal audit has no significant impact on the organizational performance in Jordan Electric Power.

Ha₁: Internal audit has a significant impact on the organizational performance in Jordan Electric Power.

Multiple linear regression has been applied as the statistical tool to measure the impact of internal audit on the organizational performance. The null hypothesis states that internal audit has no significant impact on the organizational performance in Jordan Electric Power and the alternate hypothesis states that internal audit has a significant impact on the organizational performance in Jordan Electric Power.

independence of internal audit are 0.499 and 0.346 respectively. The significant value in each case is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis is rejected and it can be said that there is a significant impact of internal audit on organizational performance in Jordan Electric Power.

Hypothesis 2

Ho₂: Internal audit has no significant impact on organizational performance in Jordan Telecom.

Ha₂: Internal audit has a significant impact on organizational performance in Jordan Telecom.

Multiple linear regression has been applied as the statistical tool to measure the impact of internal audit on the organizational performance. The null hypothesis states that internal audit has no significant impact on the organizational performance in Jordan Telecom and the alternate hypothesis

states that internal audit has a significant impact on the organizational performance in Jordan Telecom.

Table 4: Regression Model of Jordan Telecom

Model-2	Unstandardized Coefficients	Standard Error	Significant Value
Professional Competence	0.483	1.807	0.004
Internal Controls	0.402	1.227	0.000
Internal audit Standards	0.462	1.542	0.009
Independence of Internal Audit	0.375	1.263	0.007
Adjusted R Square: 0.588			

Dependent Variable: Organizational Performance

Table 4 shows the results of regression coefficients, standard error, and significant value. The value of adjusted R square is 0.588 which means 58.8 percent variation in the organizational performance in Jordan Telecom is explained by the internal audit and the rest of the variation (1-R²) is an unexplained variation. An unstandardized beta coefficient gives a measure of the contribution of each variable to the model. A larger value indicates that a unit change in the predictor variable has a larger impact on the criterion variable. The value of unstandardized beta coefficient on the variable professional competence is 0.483 which is an indication of the

positive impact of professional competence on organizational performance. The significant value corresponding to this variable is 0.000 which is less than 0.05 at 95 percent confidence interval. Besides, the significant value on internal controls is 0.000(P<0.05). However, the value of unstandardized beta coefficients on the variable internal audit standards is 0.462. Nevertheless, the value of beta coefficient on the variable independence of internal audit is 0.375. In addition to, the significant value in each case is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis is rejected and it can be said that there is a significant impact of internal audit on organizational performance in Jordan Telecom.

Hypothesis 3

Ho3: Internal audit has no significant impact on organizational performance in National Petroleum.

Ha3: Internal audit has a significant impact on organizational performance in National Petroleum.

Multiple linear regression has been applied as the statistical tool to measure the impact of internal audit on the organizational performance. The null hypothesis states that internal audit has no significant impact on the organizational performance in National Petroleum and the alternate hypothesis states that internal audit has a significant impact on the organizational performance in National Petroleum.

Table 5: Regression Model of National Petroleum

Model-3	Unstandardized Coefficients	Standard Error	Significant Value
Professional Competence	0.386	1.207	0.002
Internal Controls	0.395	1.432	0.001
Internal audit Standards	0.308	1.345	0.000
Independence of Internal Audit	0.332	1.601	0.000
Adjusted R Square: 0.499			

Dependent Variable: Organizational Performance

Table 5 shows the regression model of National Petroleum. The value of adjusted R square is 0.499 which means 49.9 percent variation in organizational performance in the company is explained by the internal audit and the rest of the variation (1-R²) is an unexplained variation. Besides, the unstandardized beta coefficient gives a measure of the contribution of each variable to the model. A larger value indicates that a unit change in the predictor variable has a larger impact on the criterion variable. The value of unstandardized beta coefficient on the variable professional competence is 0.386 which is an indication of the positive impact of professional competence on organizational performance. The significant value of this variable is 0.002 which is less than 0.05 at 95 percent confidence interval. However, the value of beta coefficient on internal controls is 0.395 and the significant value corresponding to this variable is 0.001. Moreover, the values of unstandardized beta coefficients on the variables internal audit standards and independence of internal audit are 0.308 and 0.332 respectively. The significant values corresponding to these variables in each case is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands rejected and it can be said that there is a significant impact of

internal audit on organizational performance in National Petroleum.

8. Conclusion

Internal audit control comprises the plan of organization and all methods and measures adopted within a business to safeguard operational efficiency, and encourage adherence to prescribed managerial policies. It is an independent, objective assurance and consulting activity framed to improve an organization’s operations. It helps a firm to fulfill its objectives and improve the effectiveness of risk management, control, and governance processes. In this study, an effort has been made to examine the effect of internal audit on the overall performance of the selected companies. Jordan Electric Power, Jordan Telecom, and National Petroleum are the three companies that have been chosen by the researcher. The author collected data with the help of well-designed questionnaire set on a five point Likert-scale from the employees working in these companies. The size of the sample is 290 employees. Multiple linear regression has been applied as the statistical tool to measure the impact of internal audit on the organizational performance through MS-Excel. Internal audit is the independent variable and organizational

performance is used as the dependent variable. Professional competence, internal controls, internal audit standards, independence of internal audit are used as the proxy measures of internal audit. The first null hypothesis has been rejected and it can be said that there is a significant impact of internal audit on the organizational performance of Jordan Electric Power. Besides, the second and third hypotheses have also been rejected which highlights that there is a significant positive impact of internal audit on the organizational performance in Jordan Telecom, and National Petroleum.

The study recommends that management should establish and implement a periodic review of the internal audit so that its performance and value to the Institution is maximized and to ensure compliance with appropriate standards and guidance. The research further recommends that the head of internal audit department should be a professional accountant and registered with any of the professional accountancy body in Jordan to ensure ethical righteousness.

9. References

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