

# Internal Audit Effectiveness: An Approach Proposition to Develop the Theoretical Framework

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## Abstract

Until now, there is no consensus among researchers either about the factors influencing internal auditing and how it can be measured, or the best framework for internal audit effectiveness. This could be partly related to lack of sufficient attention to the theories. This paper extends the literature of internal auditing, and its originality; and the argument is that agency theory, institutional theory, and communication theory could serve as an approach to build a theoretical framework of internal audit effectiveness. In addition to that, this study argues that the internal audit effectiveness is impacted directly by internal auditors' characteristics and internal audit department performance, as well as organization members' support as a moderating variable on these relationships which could provide insights for future research.

**Keywords:** internal audit effectiveness, agency theory, institutional theory, communication theory, theoretical framework of internal audit effectiveness.

## 1. Introduction

Internal audit has become a crucial function within organizations; however, insufficient attention has been given to study the internal audit compared to external audit. This view is supported by Gendron and Bedard (2006) who noted that academic researchers have tended to focus on external audit as a main control function mandatory while ignoring internal audit. Internal audit effectiveness has not been extensively studied yet, and several researchers have recommended the need for more research on the internal audit effectiveness especially in developing countries (Al-Twajry et al., 2003; Mihret & Yismaw, 2007; Arena & Azzone, 2007, 2009; Yee et al., 2008; Ahmad et al., 2009), where the internal auditing might play an important role against both the fraud and corruption.

Previous studies have used different approaches to investigate the internal audit effectiveness. Some (Al Darwish, 1990; Twajry et al., 2003) adopted International Standards for Professional Practice of Internal Auditing (ISPPIA) as a guideline to investigate and determine internal audit effectiveness while others (Mihret & Yismaw, 2007; Arena & Azzone, 2009; Ahmad et al., 2009) developed their own models to determine internal audit effectiveness. Moreover, in the literature, factors and the measurement of effectiveness have been used differently among the researchers (Arena & Azzone, 2009); and until today, there is no consensus on the best framework for effectiveness. Until the early 1990s, there was limited research about internal audit effectiveness. Boyle (1993) examined six major academic accounting journals for the period from 1975 to 1990, and found only twenty-one articles on the subject of internal audit and none of them dealt with internal audit effectiveness. This limitation is mainly related to lack of sufficient attention to the theories which could serve to build a theoretical framework of internal audit effectiveness. Adams (1994) confirms that the agency theory contributes to: a) rich and meaningful internal auditing research; b) explaining the existence of internal audit, its nature and the approach which is adopted; and c) predicting how internal auditors will be affected by organizational restructuring and rationalization. Mihret et al. (2010) have argued that, there is a positive association between compliance with ISPPIA and organizational goal achievement that could serve to evaluate internal audit effectiveness. On the same note, the current paper suggests a combination of theories which could of help in developing a theoretical framework of internal audit effectiveness and extend the internal audit research that include: agency theory, institutional theory, and communication theory. The following sections provide the theoretical perspectives, literature review and propositions, theoretical framework of internal audit effectiveness, followed by discussions and research conclusion.

## 2. Theoretical Perspectives

### 2.1 Agency Theory

Agency relationship could be defined as a contract among the organization owner(s) and its top management. Managers work with the organization as agents to perform some service on behalf of owners who delegate some decision making authorities to managers. These authorities could be misused by managers to meet their own personal interests. Therefore, the existence of the audit committees, and the external and internal auditors will help the organization in enhancing their performance, and also will ensure that the management carries out its plans according to procedures (Adams, 1994). Peursem and Pumphrey (2005) considered internal auditors as agents and monitors for a variety of the internal audit users that include the board, audit committee and senior management. Agency problems could occur when the board or its audit committee is inefficient, and hence, the senior management is likely to be a powerful influence over the internal audit. This complex web creates an inherent dilemma for the internal audit: how can it carry out their monitoring role over management if it is ineffective itself?

Internal auditors often are employed by senior management, but at the same time, they are also agents of the board and audit committee who trust in the internal auditors' ability to evaluate senior management's works. However, internal auditors may have varying motives to act against the board of directors' interests and its audit committee and these motives include financial rewards from managers, personal relationships with them, and the power of senior management in shaping the future position of internal auditors and their salaries. In such a work environment, internal auditors as agents may have an incentive to be bias of information flows, which leads to new concerns of the board and audit committee about their trust on the internal auditors' objectivity, and preventing such threats of objectivity becomes necessary for the board and its audit committee.

Internal auditors as agents must perform audit processes at the professional level requiring education and professional certifications, experience, and other competencies needed to perform their responsibilities perfectly. Having internal auditors with such requirements and the existence of training programs for internal auditors, would increase the confidence level of the board and audit committee in the internal auditor competence. At the same time, internal auditors, by proving their duties in accordance with the professional level, can refute charges of neglecting their duties.

The internal audit department works are achieved under supervision of the chief audit executive who is the main responsible individual for putting the internal audit plan, reporting internal audit findings and following-up internal audit recommendations. The organization members are required to evaluate the internal control system (SOX, Section 404, 2002), and in order to achieve this requirement they depend on the internal audit department. During this evaluation, internal auditors should collect sufficient and reliable evidences that will support their assessment of the internal control system. The existence of such evidences will increase the confidence level of organization members on the works performed by the internal audit. Hence, internal audit department performance is a crucial requirement for organization members to consider internal auditors as agents.

Internal auditors, as agents of the organization members, need their support. The existence of an effective audit committee in the organization enhances internal audit independence and also, reduces senior management interferences either in internal audit scope or its performance. For example, the problem related to the ability of senior management's influence over the future employment and salaries of internal auditors will be resolved by having an audit committee as the absolute authority for appointment and removal of the chief audit executive. Another clear example of organization members' support occurs when senior management asks all departments to accomplish the internal audit recommendations.

Based on the above discussion, it can be seen clearly that the agency theory is a useful theory which can explain the relationship between some variables of the study, and it is relevant to be embedded in the development of this research conceptual framework.

### 2.2 Institutional Theory

Institutional theory explains how organizational structures and practices are shaped through changes induced by normative pressures, including both external and internal sources such as laws and regulations, or by the professions (Zucker, 1987; Mihret et al., 2010). Similarly, Arena and Azzone (2007) identified the following

external forces that impact both individuals and organizations: 1) laws and regulations (coercive isomorphism); 2) choices of other organizations (mimetic isomorphism); and 3) consultation or professional bodies (normative isomorphism).

Several previous studies in internal audit have adopted an institutional theory (Al-Twajry et al., 2003; Arena & Azzone, 2006; Arena & Azzone, 2007; Mihret et al., 2010). Al-Twajry et al. (2003) adopted the isomorphic perspective to investigate internal audit in Saudi Arabia, and the institutional theory is employed to explain their findings regarding the establishments of internal audit and the role of the government in promoting their development. Similarly, Arena and Azzone (2006) focused, on the coercive isomorphism, to investigate the development of internal audit in six Italian companies as a multiple case study. Their findings confirmed that the adoption and development of internal audit were impacted by the coercive, mimetic and normative pressures. More recently a study by Arena and Azzone (2007), based on survey involving 364 Italian companies, found that the isomorphic pressures have a significant impact on the companies' support of internal auditing. The researchers suggest a need for future research to address the internal audit effectiveness by using institutional theory. Mihret et al. (2010) argue that there is a positive relationship between compliance with ISPPIA and organizational goal achievement, and this relationship could evaluate internal audit effectiveness.

Based on the above discussion, it can be seen clearly that, the institutional theory is a valid theory for internal audit effectiveness in both developed and developing countries; and it is a useful theory, which can explain the relationship between some variables of the study, and it is relevant to be embedded in the development of this research conceptual framework.

### *2.3 Communication Theory*

In accordance with the needs of the IIA as the professional body that takes care of internal auditing, several studies such as by Davidson (1991), Quinn and Hargie (2004) and Golen (2008), confirm the importance of and the need for effective communication skills in all organization functions. Studies done by Lewis and Graham (1988) and Smith (2005) suggested some ways to improve these communication skills. Previous studies by Hahn (2008) and Golen (2008) discussed communication barriers and how they can be overcome. At the same time, several previous studies have dedicated their work to communication in organizations. These studies evidenced that, effective communication and interpersonal relationships between managers and staff have a strong contribution to improve profitability, and productivity; and it leads to higher quality of services and products, and reduction in costs (Clampitt & Downs, 1993). According to both IIA Standards and previous studies, the study of effective communication in internal auditing is necessary, and hence this study should consider the communication theory for its achievement.

Davidson (1991) confirms that, all auditors can benefit from knowledge of current communication concepts, and even those who believe they are good communicators need to work consciously on assessing, improving, and applying their skills. Davidson's communication theory is based on three basic truths about communication. These are: (1) it is impossible not to communicate; (2) communication is a multilevel phenomenon, and (3) message sent does not always equal message received.

Lewis and Graham (1988) mentioned that, communication – as a word - comes from the Latin word “communicare” which means to make common. Thus, to communicate is the process of creating a common meaning with someone or some group. In other words, one person can talk, but it takes at least two people to communicate. Guo (2009) defines communication as, transfer of meaning or mutual understanding among at least two individuals to share information about a subject or issue and arrive at an agreed upon meaning. This confirms the first two points in Davidson's communication theory.

Inability to communicate effectively could be related to inappropriate information or communication complexity. Hahn (2008) confirmed that much information is as bad as little information because it reduces the receiver's ability to concentrate effectively on the most significant messages. In such an environment, internal audit users may have new concerns about their trust for internal auditors' performance. Thus, effective communication becomes necessary as a solution to this problem. To overcome such communication problems, Hahn (2008) recommends parties of the communication process to focus and offer only the necessary information by easy ways - provide meaning to the information rather than just pass on the message, and keep the information clear and simple to understand and finally ask for feedback.

The existence of effective communication between internal auditors themselves, internal auditors and auditees,

internal auditors and organization members, without any doubt, is needed to strengthen the internal audit effectiveness. As has been pointed out earlier, agency theory can explain and cover the importance of having an effective communication between organization members and internal auditors as agents to them. However, the importance of effective communication in this study extends to include the relationship between internal auditors and auditees, which can be explained under the communication theory. In this study, effective communication is one of the main factors for the effectiveness, which is measured by examining the relationship with auditees. However, there are several factors, which could contribute to the weakness of this relationship such as, accusatory style from internal auditors or just looking for the auditees' weaknesses. Such environment leads to lack of trust among internal auditors and auditees and creates one of the main communication barriers, which is a lack of trust among sender(s) and receiver(s) in communication processes (Hahn, 2008). Thus, to prevent such threats, it is necessary to improve auditees' collaboration with internal auditors.

Based on the foregoing discussion, it is doubtless that, the employment of communication theory in this study becomes necessary to establish the conceptual framework.

#### *2.4 Linking Theories of the Study*

Research in auditing has traditionally been conducted under the framework of agency theory (Pilcher et al., 2011). However, Mihret et al. (2010) argued that the neoclassical economic theories including agency theory were the main reason for limited research in internal auditing. They criticized the assumption that organizational phenomena are only driven by maximizing the self-interest of individuals, and they confirmed that the behaviour of individuals cannot be abstracted from the social settings. Thus, they suggested institutional theory.

The use of more than theory in combination enables considering social and behavioural aspects and the economic dimensions. Several previous studies have adopted both agency and institutional theories (Yamak & Suer, 2005; Christopher et al., 2009; Yaqi et al., 2012). In this study, while agency theory is mainly employed to understand economic motives that make internal auditors seek in achieving their personal interests even if they were against the organization members' interests or organizational interests, institutional theory informs about the level of compliance with ISPPA, and its impact on the companies' support of internal audit. Moreover, communication theory is used to explain the importance of effective communication between internal auditors and auditees.

### **3. Literature Review and Propositions**

As mentioned earlier, only few studies have been done about the effectiveness of internal auditing and their evaluation, and hence this area calls for more studies. Al-Twaijry et al. (2003) examined internal auditing in the Saudi Arabian corporate sector using the institutional theory. The data were collected by a mixed method based on a 78 usable questionnaire were collected from directors of internal auditing and 15 interviews were conducted. In addition, a shorter questionnaire was collected from 10 partners and 23 managers of audit firms, and 13 interviews were conducted with some of them, to ascertain their perceptions of internal auditing. Their study included the following independent variables: (1) internal audit independence, (2) professional proficiency of internal auditing, (3) scope of internal auditing, and (4) management of the internal auditing. Their findings showed that internal auditing in the Saudi Arabian corporate sector is not well developed. Where internal auditing was mainly concentrated on compliance audit rather than performance audit, shortage of resource and qualified staff, have restrictions on their degree of independence. The study's results also highlighted that managers sometimes do not implement the recommendations of internal auditing. Furthermore, the authors suggest that further research is necessary to evaluate internal effectiveness accurately because factors used in this study may have acted to reduce the value of internal auditing.

Goodwin (2004) conducted a comparison between the role of internal auditing in the public and private sectors, in Australia and New Zealand. The data collection was done using a survey questionnaire, and taking a sample of 120 chief audit executive. These questionnaires were classified as 85 from Australia and 35 from New Zealand whereas, according to type of sector were classified as 32 private sector organizations entities in Australia and 16 from New Zealand, giving a total of 48 private sector organizations while public sector organizations totalled 72, with 53 Australia and 19 New Zealand. The comparison included: (1) organizational status, (2) size of internal audit and percentage outsourced, (3) nature of internal audit activities, and (4) relationship with external auditors. The author highlights that the internal auditing in the public sector has a higher status than in the private sector. Although, the two sectors often outsource internal audit work, public sector organizations are more likely to use

an external auditor for these services. Furthermore, there is no significant difference between internal auditors in the two sectors in terms of their interaction with external auditors.

Mihret and Yismaw (2007) identified some factors that could have a significant impact on the internal audit effectiveness, based on a public sector higher educational institution in Ethiopia as case-study using a model developed for the analysis. These factors include: 1) internal audit quality; 2) management support; 3) the organizational setting; and 4) auditees' attributes. Their findings indicate that both the internal audit quality and management support have a strong influence on internal audit effectiveness. The researchers also suggest a need for future research to understand the internal audit effectiveness by using other variables.

Yee et al. (2008) examined the perception of Singaporean managers about the role and the effectiveness of internal auditing. The data were collected using an interview format from a sample of 25 different organizations. Managers in these interviews were classified into four generic categories, based on seniority, experience, and decision-making autonomy. These categories: 18 directors, 22 financial controllers, 20 mid-level managers, and 23 general executives (who work below the mid-level managers), giving a total of 83 interviews. The findings of the study indicate that the senior managers (the directors and financial controllers) to be generally satisfied with the professionalism and effectiveness of the internal auditors, and appreciate the presence of an internal auditing in the organization. The authors recommend the need to explore the role and effectiveness of internal auditing.

Arena and Azzone (2009), attempted to understand the organizational drivers of internal audit effectiveness in the light of recent changes in the 'mission' of internal auditing and its central role in corporate governance using a questionnaire survey, and took a sample of 153 Italian companies. The independent variables were: 1) the characteristics of the internal audit team, 2) the audit processes and activities of internal audit and 3) the organizational links. Their findings indicate that the internal audit effectiveness increases when: a) the ratio between the number of internal auditors and employees grows the chief audit executive is affiliated to the IIA; b) the company adopts control risk self-assessment techniques, and c) the audit committee is involved in internal audit activities. Moreover, the authors highlight the need for more detailed analysis to understand the impact of internal auditors' competencies on internal audit effectiveness.

In a related study, Ahmad et al., (2009) attempted to explore the significance of internal auditing in the Malaysian public sector. Their findings based on a questionnaire distributed to 99 participants including directors of internal audit and internal auditors indicate that; 1) inadequate support from top management; 2) lack of knowledge and appropriate training on effective auditing approaches for internal auditors; and 3) the level of acceptance and appreciation to internal audit by management has a significant impact on the internal audit recommendations implemented, and the existence of negative perception to internal audit leads to nullify its contribution in organizational goal achievement. The researchers suggest a need for future research in both public and private sectors in Malaysia by field survey method.

Without a doubt, the findings of the studies above opened up a whole new area for research, and recommended the need for more research on the internal audit effectiveness especially in developing countries where more attention should be given (Al-Twaijry et al., 2003; Mihret & Yismaw, 2007; Yee et al., 2008; Arena & Azzone, 2009; Ahmad et al., 2009). Furthermore, these studies have used different approaches to investigate the internal audit effectiveness. For example, Twaijry et al., (2003) adopted ISPPA as a guideline to investigate and determine internal audit effectiveness, while Mihret and Yismaw (2007), Arena and Azzone (2009) and Ahmad et al. (2009) developed their own models to determine internal audit effectiveness. However, the few following lines will discuss some points that relate to it. In Mihret and Yismaw's (2007) study, as in all case studies, the generalization of the conclusions was limited. In both studies Arena and Azzone (2009) and Ahmad et al. (2009), the management support has been considered as an independent variable. Arena and Azzone's (2009) findings indicate that the effectiveness enhances when the audit committee is involved in internal auditors' activities while Mihret and Yismaw (2007) consider the effective communication as part of the internal audit quality that is a strong variable influencing the effectiveness of internal auditing.

Based on the foregoing discussions in the present study, it is apparent that the potential ability for the following factors on the internal audit practices, which the following logical step aims to see their implications and their interplay on internal audit effectiveness is in line with theories employed in the current study. Therefore, the following propositions are worth pursuing.

**Internal Auditors' Characteristics** refer to the objectivity, effective communication, proficiency and due professional care, and training and development. The relationship between these characteristics and internal audit

effectiveness is the target of discussion in the next points.

Objectivity is essential for any professional who provides professional judgment either by himself or through others, and without it this judgment loses its value and becomes meaningless in others' opinion. The need for objectivity is clearly evident in the business environment in general, and especially for auditors where the users of audit services depend in part on their opinions when they take their decisions. This view is confirmed by both professional bodies and researchers. Schneider (2003) mentioned the objectivity as the key element of the internal audit effectiveness. More support for this view has been provided by several articles of ISPPA. Internal auditors must be objective when carrying out their duties (IIA, 2012, Sec. 1100). In addition, internal auditing activities should be free from any interference (IIA, 2012, Sec. 1100.A1) and internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest (IIA, 2012, Sec. 1120). Mutchler (2003) discussed seven threats to internal auditors' objectivity, which included: self-review; economic interest; personal relationships; familiarity; cultural, racial and gender biases; and cognitive biases.

Several studies noted the importance of the effective communication for functions to achieve their objectives (Lewis & Graham, 1988; Davidson, 1991; Seng, 2004; Quinn & Hargie, 2004; Smith, 2005; Robson & Tourish, 2005; Golen, 2008; Bambacas & Patrickson, 2008; Schneider, 2008). Also, ISA 610 (2009), issued by IFAC demanded external auditors by evaluating the effective communication when used during the work performed by internal auditing. Mihret and Yismaw (2007), consider effective communication as a part of the internal audit quality, which is considered as one of the strongest variables influencing the effectiveness of internal auditing.

IIA requires internal auditors to possess the knowledge, skills, and other competencies needed to perform their individual responsibilities (IIA, 2012, Sec. 1210). Previous studies such as Schneider (1984, 2003), Margheim (1986), Messier and Schneider (1988), Maletta (1993), Mousa (2005), considered proficiency and due professional care (competence) as a significant element of internal auditing.

The IIA as the international professional organization of internal auditors has demanded all its members to have continuous professional development programs (IIA, 2012). Several studies considered training and development as part of an internal auditor competence (Brown, 1983; Schneider, 1984; Messier & Schneider, 1988; Al Darwish, 1990; Mousa, 2005).

The integration of the relationship among internal auditors' characteristics is clear. For example, internal auditors must possess the knowledge, skills, and other competencies that are needed to achieve their individual responsibilities (proficiency and due professional care) and the only way for internal auditors to continue this professional conduct is by undergoing proper training and development programs. On the other hand, professional judgment will lose value when there is any doubt about the objectivity of internal auditors. The findings of internal auditors' work can fail if it is not communicated effectively. Krishnamoorthy (2002) argues that no single factor can dominate under all conditions. Therefore, it is observed that internal auditors' characteristics and their dimensions will influence internal audit effectiveness. Thus, the following propositions are proposed:

**P1:** Internal auditors' characteristics are positively related to internal audit effectiveness.

**P1a:** Each dimension of internal auditor's characteristics is positively related to internal audit effectiveness.

**Internal Audit Department Performance** refers to the planning and supervision, fieldwork, recording, reporting findings and recommendations and following-up of internal audit recommendations. SAS No. 9, (1975); SAS No. 65, (1991); IIA (ISPPA); and ISA 610, (2009) have demanded the effective performance of internal audit department. Also, several previous studies (Brown, 1983; Schneider, 1984, 2003; Margheim, 1986; Messier and Schneider, 1988; Al Darwish, 1990; Maletta, 1993; Mousa, 2005) considered the internal audit department performance as a significant element for the effectiveness of internal auditing. Thus, the following proposition is proposed:

**P 2:**Internal audit department performance is positively related to internal audit effectiveness.

**Organization Members' Support** refers to both senior management support and the existence of effective audit committees. The internal auditing is most effective when it has support from senior management, and when an audit committee exists (Sterck & Bouckaert, 2006; Soh & Martinov-Bennie, 2011). Previous studies considered senior management support and existence of the audit committee as independent variables or dimensions for other factors (Ahmad et al., 2009; Arena & Azzone, 2009; Mihret & Yismaw, 2007; Ali et al., 2007; Sterck & Bouckaert, 2006) while, in this study they are considered as moderating variables. Moderating variable is a

variable that has a strong contingent effect of the independent variable-dependent variable relationship, and its presence modifies the original relationship between dependent and independent variables (Sekaran, 2003, p. 91). Thus, it is proposed that:

**P3:** Organisation members' support moderates the relationship between internal auditors' characteristics and internal audit effectiveness.

**P3a:** Each dimension of organisation members' support moderates the relationship between internal auditor's characteristics and internal audit effectiveness.

**P4:** Organisation members' support moderates the relationship between internal audit department performance and internal audit effectiveness.

**P4a:** Each dimension of organisation members' support moderates the relationship between internal audit department performance and internal audit effectiveness.

#### 4. Theoretical Framework of Internal Audit Effectiveness

In the present study, the dependent variable is an internal audit effectiveness, in which is attempted to be explained in its direct relationship with the following independent variables: (1) internal auditor's characteristics, and (2) internal audit department performance. Also, this study seeks to explain the impact of organization members' support as a moderating variable on these relationships.

Internal auditor's characteristics are adopted in ISPPA as attributes for both organizations and individuals. However, the majority of previous studies such as Brown (1983), Schneider (1984), Margheim (1986), Messier and Schneider (1988), and Maletta (1993), studied the objectivity, competence and the performance of internal audit department, which have been mentioned by AICPA (SAS No. 9) and (SAS No. 65), at the department level. A few of previous studies addressed the relationship between these characteristics and internal audit effectiveness at the individual level. Schneider (2003), for example, considered internal auditors' objectivity as the key element of internal audit effectiveness; Mutchler (2003) discussed seven threats to internal auditors' objectivity, and argued that these threats have a significant impact on the effectiveness. Mihret and Yismaw (2007) found significant impact between effective communication and the effectiveness. Ahmad et al. (2009) found, 10.3% of their respondents mentioned that the lack of training for internal auditors is a serious problem that can restrain internal audit effectiveness. Mihret et al. (2010) indicate that both the technical competence and continuous training are essential requirements for internal audit effectiveness. Consistent with ISPPA and previous research findings; the current study expects that internal auditors' characteristics and its dimensions will influence the internal audit effectiveness as it is perceived by external auditors significantly.

As mentioned earlier, the direct relationship between internal audit department performance and internal audit effectiveness was studied by previous studies such as Brown (1983), Schneider (1984), Margheim (1986), Messier and Schneider (1988), Maletta (1993), Haron et al. (2004) and Suwaidan and Qasim (2010), and also this relationship is adopted in ISPPA as performance standards. Mihret et al. (2010) indicate that the sufficiency of internal audit's scope and the standard with which the audits are planned, executed and reported are important illustrations of internal audit effectiveness. Consistent with ISPPA and previous research findings, the current study expects that internal audit department performance will influence the internal audit effectiveness as it is perceived by external auditors significantly.

When the relationship between the independent variable and the dependent variable becomes contingent on another variable that has a moderating effect on this relationship, this variable is called as a moderating variable (Sekaran, 2003, p. 91). This study argues that the organization members' support moderates: (1) the relationship between internal auditor's characteristics and internal audit effectiveness, and (2) the relationship between internal audit department performance and internal audit effectiveness. In other words, internal audit effectiveness could be reached only when the activities of both internal audit and its auditors are supported by organization members. This support includes allocating adequate human and material resources to internal audit for instance, and the overall tone in the organization of acceptance and appreciation both internal audit and its auditors, and to implement internal audit recommendations. However, no attention has been given, in prior literature, to examine the impact of organization members' support as a moderating variable. Therefore, consistent with the logical connections above, the current study expects those organization members' support moderates the independent variable-dependent variable relationship as it is perceived by external auditors

significantly. Figure 1 shows the theoretical framework of internal audit effectiveness.

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It can be seen from Figure 1, the direct relationship between internal auditor's characteristics and internal audit effectiveness. As explained earlier, internal auditor's characteristics, which refer to the objectivity, effective communication, proficiency and due professional care, and training and development, are adopted in ISPPIA as attributes for both organizations and individuals. Therefore, institutional theory is employed to explain the relationship between these characteristics, except effective communication, and internal audit effectiveness, while communication theory is used to explain the relationship between effective communication and internal audit effectiveness. For the direct relationship between internal audit department performance and internal audit effectiveness, institutional theory is also employed to explain this relationship. This is because internal audit department performance is adopted in ISPPIA. On the other hand, the relationship between organization members and internal audit is under agency theory. Therefore, the impact of organization members on the relationship between the variables of the study, as explained earlier, is explained based on agency theory.

## 5. Discussions and Conclusion of Research

This paper argues that agency theory, institutional theory and communication theory could be helped in building a theoretical framework of internal audit effectiveness. The existing literature shows: a) limited research about internal audit effectiveness is related to lack of sufficient attention to the theories; b) the effectiveness is a new research area in internal auditing (Sarens, 2009), as only a few studies have been conducted worldwide; c) most of these studies are without a theoretical framework (Krishnamoorthy, 2002); and d) although some prior studies have adopted an approach that combines agency and institutional theories in developing their theoretical framework, there is no attention given, in prior literature, to adopt it for internal audit effectiveness. Thus, this study seeks to fill this gap by developing research propositions based on an approach that combines theories employed in the current study.

As mentioned earlier, the integral relationship among individual characteristics is clear, and the ISPPIA has adopted the objectivity, proficiency and due professional care, and training and development, as attributes for both organizations and individuals (IIA, 2012). However, previous studies have examined the existence of these characteristics at the department level, and no attention has been given to assess the impact of internal auditors' characteristics. Therefore, this study contributes to fill this gap through its logical argument and recommend the need for more researches on this issue.

Although the integration of roles between senior management support and the existence of an effective audit committee in the organization to strengthen the internal audit effectiveness is evident, only a few studies (Sterck & Bouckaert, 2006; Mihret & Yismaw, 2007; Arena & Azzone, 2009) consider one or both as independent variables. The present paper has argued that the direct relationships among variables of the study are contingent on organization members' support, and only when the organization members have the interest and urge to support activities both internal audit and its auditors the concept of internal audit effectiveness is to be adopted. However, no attention has been given, in prior literature, to examine this issue. Such a study helps to understand the role and the impact of organization members' support in internal audit effectiveness. Thus, P3 and P4 are logically appropriate starting point to formulate hypotheses in quantitative studies. Thus, this study contributes to fill this gap through its logical argument above and open a new area for research.

The first proposition could be a beginning point to: a) formulate testable hypotheses, b) develop research questions in more detailed form; and c) enable deeper understanding of both practice and theory of internal audit effectiveness (Mihret et al., 2010). However, the theoretical framework proposed in the current study needs to conduct an empirical examination in the future. Moreover, this paper has also argued that, as internal audit aims to help in achieving the organization's objectives, a positive relationship between the compliance with ISPPIA and internal audit effectiveness could be an additional approach to evaluate it.



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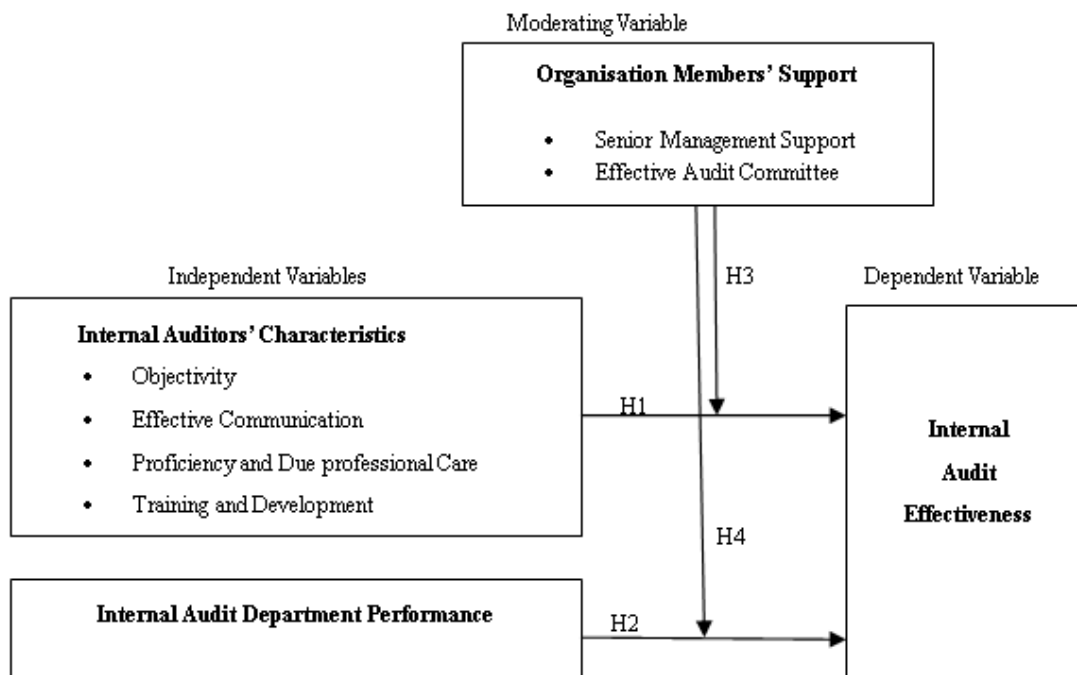
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**Figure 1: Theoretical Framework: Internal Audit Effectiveness**

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