The Effect of Internal Audit on Organizational Performance: An Empirical Exploration of Selected Jordanian Banks

Dr. Borhan Omar Ahmad

Abstract
Internal audit is a systematic and independent examination of data, financial statements, accounts records, operations and performances of an enterprise for the purpose of verifying their authenticity and fairness. It is a broad term which means a number of checks and controls exercised in a business to ensure efficient working in the organization. It is regarded as indicating the whole system of controls through vigilance and direction established by the management in the conduct of business. It has become an indispensable management tool for achieving effective control by detecting the weaknesses in management operations in all industry especially banking industry. Taking this into cognizance, this study examines the effect of internal auditing on the organizational performance of major Jordanian banks. A sample of 364 employees has been selected for the study. Data have been collected through self administered questionnaires and analyzed with the help of multiple 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 all banks except Arab Bank.
Keywords: internal auditing, organization, performance, banks, multiple regression.

INTRODUCTION

Internal auditing is a systematic and independent examination of data, financial statements, accounts records, operations and performances both financial and otherwise, of an enterprise for the purpose of verifying their authenticity and fairness (Butcher, Harrison, and Ross, 2013). It is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (Gramling, 2004). It 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 is a pre-requisite for the efficient and smooth working of an organization (Farouk & Hassan, 2014). The organization must establish and maintain adequate systems of internal control appropriate to the size and nature of business of the entity. The auditor perceives and recognizes the proposition before him for examination, collects evidence, evaluates the same and formulates his judgment. Thereafter, judgment is communicated through the Audit Report which is the end result of auditing (Ravinder & Virender, 2005). The insiders and outsiders of the organizations are solely guided by the audit report whether the financial accounts and statements present a fair and true picture of the performance of the organization. The report is of particular interest to shareholders, creditors, investors, employees, and government i.e. who have a financial stake in the success or failure of the business enterprise (Daniel, 2013).

Internal audit control ensuring the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of account records, and the timely preparation of reliable financial information (Abidin and Ismail, 2009). The system of internal control extends beyond those matters which relate directly to the functions of accounting system. Moreover, internal auditing has become an indispensable management tool for achieving effective control by detecting the weaknesses in management operations in all industry especially banking industry (Nyakundi, Nyamita, & Tinega, 2014). It 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 (Goodwin and Yeo, 2001). It is a system of instituting checks on the day-to-day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention and early detection of errors or fraud (Shahnawaz, 2016).

Internal auditing is a broad term which means a number of checks and controls exercised in a business to ensure efficient and economic working (Chopra, 2012). It 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 (Abu Bakar, 2009). 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 (Rajwanshi, 2015).

REVIEW OF LITERATURE

Ahmad (2007) 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)** found 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. **Obert & Munyunguma (2014)** evaluated 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)** examined the role of internal audit practice on organizational performance of Somalian companies. The sample size was 200 respondents and data was collected through questionnaires set on Likert scale. The findings highlighted that there was a significant positive relationship between internal audit and organizational performance of the companies under study. **Albkour & Chaudhary (2017)** investigated the impact of internal audit on organizational performance of selected Jordanian banks with the sample size of 145 employees. The study revealed that there is a significant impact of internal audit on organizational performance of selected banks. **Alflahat (2017)** in the study titled, ***"The Impact Of Internal Audit On Organizational Performance Of Selected Jordanian Companies"*** examined the impact of internal audit on the organizational performance of Jordan Electric Power, Jordan Telecom, and National Petroleum. The sample size of the study was 290 employees. Data was collected through questionnaires. Multiple linear regression was used as the statistical tool for analysis. Internal audit was the independent variable and organizational performance was used as the dependent variable. Professional competence, internal controls, internal audit standards, independence of internal audit were used as the proxy measures of internal audit. The analysis of data revealed that there is a significant impact of internal audit on the organizational performance in companies under study.

OBJECTIVES OF THE STUDY

a) To examine the impact of internal auditing on the organizational performance of Bank of Jordan.
b) To investigate the impact of internal auditing on the organizational performance of Cairo Amman Bank.
c) To evaluate the impact of internal auditing on the performance of Jordan Kuwait Bank.
d) To examine the impact of internal auditing on the organizational performance of Arab Bank.

HYPOTHESES OF THE STUDY

Ho_1: There is no significant impact of internal auditing on the organizational performance of Bank of Jordan.
Ha_1: There is a significant impact of internal auditing on the organizational performance of Bank of Jordan.
Ho_2: There is no significant impact of internal auditing on the organizational performance of Cairo Amman Bank.
Ha_2: There is a significant impact of internal auditing on the organizational performance of Cairo Amman Bank.
Ho_3: There is no significant impact of internal auditing on the organizational performance of Jordan Kuwait Bank.
Ha_3: There is a significant impact of internal auditing on the organizational performance of Jordan Kuwait Bank.
Ho_4: There is no significant impact of internal auditing on the organizational performance of Arab Bank.
Ha_4: There is a significant impact of internal auditing on the organizational performance of Arab Bank.

RESEARCH METHODOLOGY

A self-administered questionnaire was used to collect primary data. Self-administered questionnaire is the survey in which respondents take responsibility for reading and answering the questions. It is considered as a superior mode for minimizing bias and improving response rates. The questionnaire consists of five variables wherein organizational performance was dependent variable and internal auditing was the independent variable.

Figure 1 highlights the framework of the present research. The effects of independent variables on the dependable variable were assessed by the 5-point Likert attitude scale. The questionnaire was pre-tested several times. A total of 500 questionnaires were distributed among the employees working in selected banks wherein 364 questionnaires were considered valid for data analysis. Table 1 shows the questionnaires distributed, rejected, and accepted. The data collection period was six months since September, 2017 to February, 2018.
Secondary information was gathered from different sources such as books, magazines, journals, newspapers and online databases via internet etc. Sample survey or cross-sectional survey was the main method to explore attitudes of patients' satisfaction with private hospitals. This is a method of primary data collection in which information is based on communication with a representative sample of target population at a point in time. Simple linear regression was used to analyze the results through Statistical Package for the Social Science (SPSS) 20 version.

Analysis of Data
Data collected from primary as well as secondary sources was analyzed and interpreted and on the basis of which conclusions were drawn. For analyzing the data, multiple linear regression analysis was used and hypotheses have been tested at confidence level of 95%.

Table 1: Sample Size of the Study

Selected Banks	**Questionnaires**		
	Distributed	**Rejected**	**Accepted**
Bank of Jordan	100	31	69
Cairo Amman Bank	100	24	76
Jordan Kuwait Bank	150	44	106
Arab Bank	150	37	113
Total	**500**	**136**	**364**

Source: Primary Data

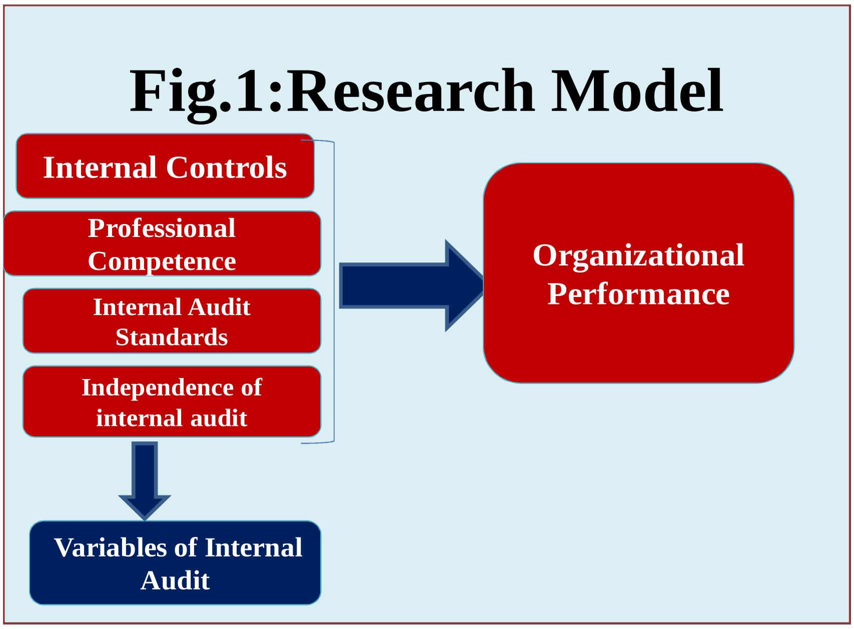
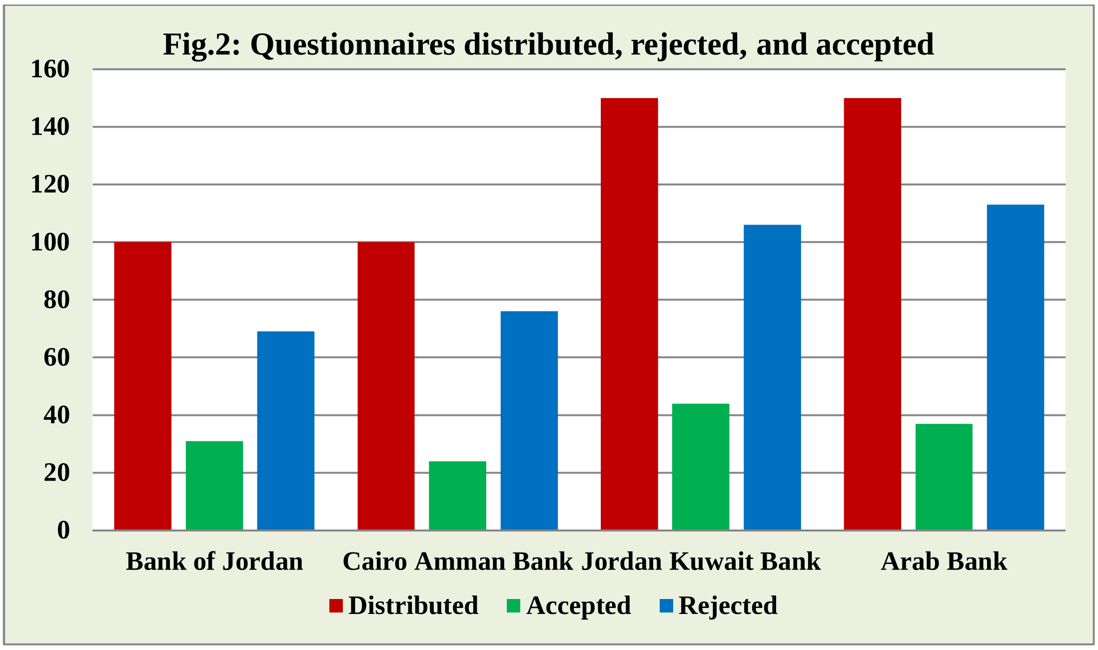


Fig.1:Research Model

Source: Researcher's Own Compilation



CORRELATION STATISTICS OF STUDY VARIABLES

Table 2 highlights the correlation matrix of the study variables. There exists significant positive correlation between internal audit variables and organizational performance.

Table 2: Correlation Matrix

Dependent Variable	**Independent Variables**				
	IC	**PC**	**AS**	**IIA**	**OP**
OP	0.804**	0.867**	0.699**	0.718**	1

Note: IC: Internal Control; PC; Professional Competence; AS: Internal audit standards; IIA: Independence of internal audit; OP: Organizational Performance

**Correlation is significant at the 0.05 level (2-tailed)

Source: Output of SPSS_20

HYPOTHESIS TESTING

Ho_1: There is no significant impact of internal auditing on the organizational performance of Bank of Jordan.

Ha_1: There is a significant impact of internal auditing on the organizational performance of Bank of Jordan.

Table 3: Multiple Regression Analysis [Bank of Jordan]

Model 1	**Variables**	**Regression Coefficients**	**T Value**	**P Value**
X_1	Internal control	0.554	11.521	0.000
X_2	Professional competence	0.629	2.698	0.003
X_3	Internal audit standards	0.337	-4.577	0.008
X_4	Independence of internal audit	0.228	26.685	0.006
	R	0.856		
	R Square	0.732		
	Adjusted R Square	0.726		
	Standard Error	1.254		
	ANOVA (Model Fitness)	F Value: 62.967; P Value: 0.005*		
Dependent Variable: Organizational Performance				

* Significant at 5% level

Source: Output of SPSS_20

Multiple linear regression has been used to check the impact of internal auditing (independent variable) on the organizational performance (dependent variable). Table 3 shows the regression model of Bank of Jordan. The value of adjusted R square is 0.726 which means 72.6 percent variation in organizational performance is explained by the internal audit and the rest of the variation ($1-R^2$) is an unexplained variation. Furthermore, ANOVA shows the model significance. The F value is 62.967 and the p value corresponding to it is 0005 ($P<0.05$) meaning thereby all the variables fulfilled the criteria of model accuracy.

The regression 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 regression coefficient on the variable professional competence is 0.629 which is an indication of the positive impact of professional competence on organizational performance. The significant value of this variable is 0.003 which is less than 0.05 at 95 percent confidence interval. However, the value of beta coefficient on internal controls is 0.554 and the significant value corresponding to this variable is 0.000. Moreover, the values of regression coefficients on the variables internal audit standards and independence of internal audit are 0.337 and 0.228 respectively. The significant value under each variable 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 the organizational performance in Bank of Jordan.

Ho_2: There is no significant impact of internal auditing on the organizational performance of Cairo Amman Bank.
Ha_2: There is a significant impact of internal auditing on the organizational performance of Cairo Amman Bank.

Table 4: Multiple Regression Analysis [Cairo Amman Bank]

Model 2	**Variables**	**Regression Coefficients**	**T Value**	**P Value**
X_1	Internal Control	0.601	-2.551	0.001
X_2	Professional Competence	0.599	19.525	0.000
X_3	Internal audit standards	0.507	1.705	0.000
X_4	Independence of internal audit	0.413	3.448	0.002
	R	0.901		
	R Square	0.811		
	Adjusted R Square	0.804		
	Standard Error	1.557		
	ANOVA (Model Fitness)	F Value: 159.587; P Value: 0.004*		
Dependent Variable: Organizational Performance				

* Significant at 5% level
Source: Output of SPSS_20

Multiple linear regression has been used to investigate the impact of internal auditing (independent variable) on the organizational performance (dependent variable) of Cairo Amman Bank. Table 4 shows the regression model. The value of adjusted R square is 0.804 which means 80.4 percent variation in organizational performance is explained by the internal auditing and rest of the variation ($1-R^2$) is an unexplained variation. Furthermore, ANOVA shows the model significance. The F value is 159.587 and the p value corresponding to it is 0.004 ($P<0.05$) meaning thereby all the variables fulfilled the criteria of model accuracy.

The regression 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 regression coefficient on the variable professional competence is 0.599 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 0.554 and the significant value corresponding to this variable is 0.000. Moreover, the values of regression coefficients on the variables internal audit standards and independence of internal audit are 0.507 and 0.413 respectively. The significant value under each variable is less than 0.05 at 95 percent confidence interval. Therefore, the alternate hypothesis is accepted and it can be said that there is a significant impact of internal audit on the organizational performance in Cairo Amman Bank.

Ho_3: There is no significant impact of internal auditing on the organizational performance of Jordan Kuwait Bank.

Ha$_3$: There is a significant impact of internal auditing on the organizational performance of Jordan Kuwait Bank.

Table 5: Multiple Regression Analysis [Jordan Kuwait Bank]

Model 3	Variables	Regression Coefficients	T Value	P Value
X_1	Internal Control	0.432	-5.509	0.000
X_2	Professional Competence	0.397	15.228	0.000
X_3	Internal audit standards	0.385	13.377	0.000
X_4	Independence of internal audit	0.511	-2.207	0.002
	R	0.917		
	R Square	0.841		
	Adjusted R Square	0.829		
	Standard Error	2.114		
	ANOVA (Model Fitness)	F Value: 96.684; P Value: 0.000*		
Dependent Variable: Organizational Performance				

* Significant at 5% level
Source: Output of SPSS_20

Multiple linear regression has been used to investigate the impact of internal auditing (independent variable) on the organizational performance (dependent variable) of Jordan Kuwait Bank. Table 5 shows the regression model. The value of adjusted R square is 0.841 which means 84.1 percent variation in organizational performance is explained by the internal audit and the rest of the variation ($1-R^2$) is an unexplained variation. Furthermore, ANOVA shows the model significance. The F value is 96.684 and the p value corresponding to it is 0.000 ($P<0.05$) meaning thereby all the variables fulfilled the criteria of model accuracy. The regression coefficient on the variable internal control is 0.432 and its corresponding significant value is 0.000 ($P<0.05$). However, the value of beta coefficient on professional competence is 0.397 and the significant value corresponding to this variable is 0.000. Moreover, the values of regression coefficients on the variables internal audit standards and independence of internal audit are 0.385 and 0.511 respectively. The significant value under each variable is less than 0.05 at 95 percent confidence interval. Therefore, null hypothesis is rejected and it can be said that there is a significant impact of internal audit on the organizational performance in Jordan Kuwait Bank.

Ho$_4$: There is no significant impact of internal auditing on the organizational performance of Arab Bank.
Ha$_4$: There is a significant impact of internal auditing on the organizational performance of Arab Bank.

Table 6: Multiple Regression Analysis [Arab Bank]

Model 4	Variables	Regression Coefficients	T Value	P Value
X_1	Internal Control	0.227	16.664	0.467
X_2	Professional Competence	0.119	-2.229	0.294
X_3	Internal audit standards	0.192	9.542	0.738
X_4	Independence of internal audit	0.078	-3.337	0.525
	R	0.557		
	R Square	0.310		
	Adjusted R Square	0.301		
	Standard Error	2.009		
	ANOVA (Model Fitness)	F Value: 254.667; P Value: 0.668		
Dependent Variable: Organizational Performance				

Source: Output of SPSS_20

Multiple linear regression has been used to investigate the impact of internal auditing (independent variable) on the organizational performance (dependent variable) of Arab Bank. Table 6 shows the regression model. The value of adjusted R square is 0.301 which means 30.1 percent variation in organizational performance is explained by the internal auditing and the rest of the variation ($1-R^2$) is an unexplained variation. Furthermore, ANOVA shows the model significance. The F value is 254.667 and the p value corresponding to it is 0.668 ($P<0.05$) meaning thereby all the variables do not fulfilled the criteria of model accuracy. Nevertheless, the regression coefficients are not statistically significant because p value under each variable is more than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis stands accepted and it can be said that there is insignificant impact of internal audit on the organizational performance in Arab Bank.

Table 7: Summary of Hypotheses Tested

No.	Hypotheses	Results
H_{01}	There is no significant impact of internal auditing on the organizational performance of Bank of Jordan.	Rejected
H_{02}	There is no significant impact of internal auditing on the organizational performance of Cairo Amman Bank.	Rejected
H_{03}	There is no significant impact of internal auditing on the organizational performance of Jordan Kuwait Bank.	Rejected
H_{04}	There is no significant impact of internal auditing on the organizational performance of Arab Bank.	Accepted

CONCLUSION

Internal auditing is a systematic and independent examination of data, financial statements, accounts records, operations and performances both financial and otherwise, of an enterprise for the purpose of verifying their authenticity and fairness. It comprises the plan of organization and all methods and measures adopted within a business to safeguard operational efficiency, encourage adherence to prescribed managerial policies, and helps in achieving the objectives of the enterprise. In this study, an effort has been made to examine the effect of internal audit on the organizational performance of the selected Jordanian Banks. The author collected data with the help of self administered questionnaire set on a five point Likert-scale from the employees working in these banks. The size of the sample is 364 employees and data has been analyzed with the application of multiple regression. 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 measures of internal audit. Three hypothesis have been rejected and one has been accepted. It means that there is a significant impact of internal audit on the organizational performance of Bank of Jordan, Cairo Amman Bank, and Jordan Kuwait Bank. However, insignificant impact of internal audit on the organizational performance has been revealed in Arab Bank and hence it is recommended to take necessary steps in Arab Bank.

LIMITATIONS OF THE STUDY

i. The study examines the impact of internal auditing on the organizational performance of four Jordanian banks. Therefore, the results cannot be generalized to other companies.
ii. The sample size of the research is 364.
iii. Only four variables of internal audit have been used in the study.

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