

# Effectiveness Factors of Internal Audit Quality in Banks

Subjects: [Business](#), [Finance](#)

Contributor: Madiha Afzal

Due to the complexity of internal audit effectiveness, it has been less studied in accounting and finance. Internal audits are defined by different authors in different ways. Internal audit effectiveness helps to achieve the set target by the organization and to reach the goals within a specific time is the effectiveness of internal audit quality. Internal audit quality evaluated through potential factors such as competence, objectivity, performance, board audit committee support, and independence.

audit quality effectiveness

commercial banks

internal audit

## 1. Introduction

The internal audit requires more strength due to rapid advancement in the global economy, technology, and complexity of rules and regulations in the last decades that set towards new directions, which ultimately support the management and added value for the organization ([Wang et al. 2022](#); [Ado et al. 2020](#)). The strength requires more skillful internal auditors who performed their best in leading the global economy ([Alsabti and Khalid 2022](#); [Vashdi et al. 2022](#)). Along with internal auditor skills and education, in the current scenario, more attention needs to make sure effectiveness of internal audit quality ([George et al. 2015](#)). Undoubtedly, the effectiveness of internal audit quality is a big challenge that can be promptly overcome with the help of key elements of good governance ([Ahmet 2021](#)). So that more important in the current context of the study to describe the internal audit quality effectiveness and determine the factors that can add value to internal audit ([Abdelrahim and Al-Malkawi 2022](#); [Prasad et al. 2022](#)).

Internal audit effectiveness is mandatory to achieve the set goals. The effectiveness of internal audit quality is a set goal for evaluation of either audit function is capable to achieve the set goal by the organization ([Turetken et al. 2020](#)). An organization that set effective internal audit function are more reliable and performs well, estimate future risk, and can take appropriate action against any risk and it helps to better improvement will last ([Alqudah et al. 2019](#)). Furthermore, the internal audit quality function helps to achieve public confidence that works as an asset for any organization which is achievable through reliable financial reporting and these are basic elements that every organization must contain ([Phan et al. 2020](#)). Owing to these elements, an organization can achieve competent internal audit staff and a leadership board audit committee whose ultimate objective is to achieve effective internal audit quality. Due to rapid advancement in audit systems, the effectiveness of internal audit quality becomes a more fruitful topic in the last decades. Because organizational success and survival depend on the internal auditor's best performance ([Badara and Saidin 2013](#)). Internal auditors have one of the basic duties to check daily

routines and solve problems. This day-to-day check helps the internal auditor to cater to risk assessment at an advanced level ([El Gharbaoui and Chraibi 2021](#)). The big challenge of internal auditors is the lack of authority, responsibility, and scope, which is not mentioned by the higher authority owing to this internal audit departments could not understand the real internal audit function ([Al Nuaimi et al. 2020](#)). Furthermore, still exist challenges and expectations from internal auditors higher to operate daily activities at their level best. So, the basic attributes of internal audit are not designed ([Anojan 2022](#)).

Therefore, auditor performance affecting. Because the achievement of set goals is only possible if the performance and other attributes are well-designed and mentioned ([Potjanajaruwit 2022](#)). The internal audit function is only considered effective if it can achieve the target on time ([Al-Okaily et al. 2022](#)). Owing to these issues and challenges that persist in the audit system attract more attention to the researcher. So, it's mandatory to find that variable that is necessary to make internal audit quality effective ([Hoai et al. 2022](#)).

## **2. Effectiveness Factors of Internal Audit Quality in Banks**

### **2.1. Effectiveness of Internal Audit Quality**

Due to the complexity of internal audit effectiveness, it has been less studied in accounting and finance. Internal audits are defined by different authors in different ways. Internal audit effectiveness helps to achieve the set target by the organization and to reach the goals within a specific time is the effectiveness of internal audit quality ([Hazaea et al. 2020a, 2020b, 2020c](#)). According to the basic definition, it is an independent assurance of objectives and provides consulting that is designed to add value and improvement of the organization's current operations ([Lenz et al. 2018](#)). So, IAF considers effective for the organization when it helps an organization to add value and creativity in current activities ([Ta and Doan 2022](#)).

Effective internal control, governance system, and risks management assessment are basic tools that help to evaluate the effectiveness of internal audit quality function by the chief financial officer, management, and board audit committee claimed by the previous literature, ([Pooe et al. 2022; Jung and Cho 2022](#)) their studies provide clear insights that internal audit could only add value and creativity to the organization when achieving ultimate objective of economic, effective internal control that is implied by the chief internal auditor with the support of management.

Internal audit effectiveness is a debatable issue over the decades. The effectiveness of internal audit quality is set goals by the organization ([Joshi 2022](#)). According to the definition of internal audit, the main objective is to add value to the organization. So that internal audit effectiveness can be easily measured if it actual add value for the organization.

### **2.2. Competence of Internal Auditor**

The competence of an internal auditor involves knowledge, experience, and skills. These attributes are mandatory for an internal auditor to fulfill his duties. These duties ultimately help to achieve effective internal audit quality. Competence of the internal auditor factor works as the main pillar in the audit system. Without these attributes, the internal auditor cannot perform their professional activities. Professionalism first entity must know according to require fields. Furthermore, to perform their internal audit activities auditors must have good communication skills, so that communicate with other members of the department to achieve the desired objective in the banking system. Auditors must have critical thinking to predict future risks and make reforms in such a way as to overcome risks in the future. Competency of the auditor to help work and collaborate with different internal departments to achieve effective internal audit quality. According to ([Singh et al. 2021](#)) and the educational level of the internal auditor, the internal auditor operates the procedures with professional experience and knowledge are a basic pillar to evaluate the competence of internal auditor.

### 2.3. Performance of Internal Auditor

As with other factors, the performance of the internal auditor is essential. Auditor work has many challenges due to the complexity of the job. The performance of the internal auditor requires covering all issues in current scenarios that are facing the banking system. The basic purpose of an auditor is to present fair and clear audit reports, to attract internal and external performance. It is only possible when auditor performs their duties on time. The performance of the internal auditor works as a pillar for any organization because if there is one mistake the whole process of the organization will be affected ([Lenz and Hahn 2015](#)). So, the performance of the organization can be considered complete if it helps to achieve the organization's set goals and objectives. Organization effectiveness depends ultimately on auditor performance. It is only possible if auditor goals match with organization goals and objectives. This is due that auditor perform their duty well.

### 2.4. Independence of Internal Auditor

The independence of internal auditors means performing their duties unbiasedly. To achieve desired objectives, it is mandatory to give clear instructions to the Chief internal auditor to branch managers there is no involvement while performing audit activities. These restricted rules must be set by the auditors as well. Because based on internal auditor reports internal and external investors to attract towards organization. If it is made unbiased it is very convenient for the investors in the future for the reliability of the reports. It is only possible if there is a strong connection among internal audit departments. Internal audit departments must have strong communication ([Alqudah et al. 2019](#)). The audit department owing to its professionalism detects the errors so quickly. And if the auditor performs their duties unbiasedly there is no threat to external auditor. Because if an organization needs external auditors, then we must need to check internal auditor progress during the annual meeting [Dellai and Omri \(2016\)](#). This is due to the auditor having all the rights to check and evaluate each instrument without any restrictions and involvement of other authorities.

### 2.5. Objectivity of Internal Auditor

Objectivity is a key factor for the internal auditor. If the auditor works, their activities objectively and according to the structure then the organization progress ultimately. As aforementioned importance clearly defined the factor importance. In the last decades audit system rapidly requires more attention due to their importance in the current progressive environment. According to ([Kassie 2021](#)) previous studies and researchers found that the objectivity factor is closer to the internal audit function. According to others argue their work it is as important as blood in the body. Fair and clear reports designed by the auditor if the auditor's objectives and organization's objectives same.

## 2.6. Board Audit Committee Support

The organization's daily routine depends on the manager's activities. And managers are always ready to adopt new methods and techniques to update daily activities. Managers and internal auditor support are mandatory for organizational goals ([Nguyen 2022](#)). Internal audit activities cannot perform accurately without management's strong support. Audit activities always perform based on providing information by management ([Nguyen 2020](#)). According to strong management support, a board audit committee, and a chief financial officer are the basic pillar that can help to achieve organizational desired goals. Internal audit departments need to build strong communication with the board audit committee, and management. Because if they have good communication then they can achieve an effective internal control system. Effective internal control and effective internal audit are mandatory to achieve the financial performance of the organization [Umar and Dikko \(2018\)](#).

## 3. Conclusions

In a nutshell, internal audit plays a significant and key role to achieve the set goals of the organization. Organizational success depends on the fair and clear system of the internal auditor department along with other elements. Due to its significance internal auditor effectiveness is tricky and critical ([Octavia 2013](#)).

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