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The Effect Of Internal Audit System On Institutional Governance Level In Businesses

Ali Haydar Güngörmüş[a]

[a] PhD, Independent Scholar Koblenz / Germany, a.h.gungormus@gmail.com

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Abstract

Purpose: The aim of this study is to determine the relationship between the effectiveness of the internal audit level of companies and the institutional management level.

Design and Methodology: We administered a questionnaire survey to collect the data. This was collected through direct interviews with managers, by an online survey, and by telephoning the firms whose addresses were obtained from business associations. In order to test the hypothetical association of the model in this study, the PLS-SEM method was employed.

Findings: In the study, it was found that companies that used internal audits effectively have high levels of institutional governance. As the efficiency of the internal audit system increased, so the level of objectivity, transparency, and formalization also increased accordingly.

Practical Implications: In view of the fact that companies have become multinational enterprises in recent years, their desire to increase their capital power by going public has increased the impact of different interest groups and their expectations upon businesses. With transparency accountability, reliability concepts have become an important criterion since these interest groups seek to control enterprises. In light of the business scandals that have occurred internationally, the concept of institutional governance began to be used as an international benchmark in terms of the accountability of companies. Instituting an internal audit has performed an important function in the development of the effectiveness of institutional governance in businesses. As a tool with which to avoid future scandals, this study has investigated the association between the internal audit system and corporate governance.

Significance of the Study: We assume that the findings of this study will contribute toward the enhancement of good corporate governance, which alleviates agency problems in business organizations. The findings have several implications regarding board members, managers, and organizations. Establishing corporate governance mechanisms and resolving agency issues are among the boards' primary responsibilities. In order to ensure this, managers must establish reporting procedures with internal control and monitoring devices before inviting external control through independent auditing.