

Analysis of Cultural Aspects and Their Influence on Internal Audit Effectiveness: A Literature Review

Brian Audika, Astrini Aning Widoretno*

Universitas Pembangunan Nasional Veteran Jawa Timur
e-mail: astrini.widoretno.ak@upnjatim.ac.id

Abstract

To increase organizational performance, the internal audit function must contribute information that may be used to make informed decisions. The discussion also stressed how contingency considerations affect the efficacy and quality of internal audit. This study analyses the literature on contingencies with a cultural background based on the contingency basis. This study employs a systematic review methodology to identify existing information and gaps. In addition to describing the function of culture in businesses, this study demonstrates how internal audit contributes to sound decision-making and enhances organizational performance. This research contributes to understanding culture's role in the internal audit's quality and effectiveness.

Keywords: Internal audit; Internal audit quality; Internal audit effectiveness; Organizational culture.

DOI: [10.20885/ncaf.vol5.art59](https://doi.org/10.20885/ncaf.vol5.art59)

INTRODUCTION

Today organizations must be aware of the importance of effective decision-making. In addition, accounting information allows organizations to determine their viability with relevant information to ensure and maintain growth and profitability (Ax, 2019). Therefore, the importance of the internal audit function in supporting the organization's overall performance has become a function that provides essential added value to the organization (Mihret et al., 2010; Nagy & Cenker, 2002). This is also supported by the mission of the Institute of Internal Auditors in the International Professional Practices Framework (IPPF) (2017), which states that the function of internal audit is to enhance and protect organizational values by providing assurance, advice, and risk-based and objective insights.

Although internal audit has been considered an essential function in supporting the success of the company, according to research (Mihret & Yismaw, 2007; Mihret et al., 2010; Lenz & Hahn, 2015; Sarens & Abdolmohammadi, 2011) that the attention paid to research on internal audits are not enough, the effectiveness of internal audit is a research topic that should be given attention because it determines the extent to which organizations can take advantage of added value and improve organizational performance (e.g., Lenz and Hahn, 2015; Dicle & Usluer, 2016; Lenz et al., 2014).

Therefore, this study seeks to contribute to reviewing the effectiveness of the role of internal audit in terms of several kinds of literature that are discussed systematically and reviewing the role of culture as a factor of organizational and individual behavior (Opote, 2017). According to the Institute of Internal Auditors (2017), organizations must ensure that internal controls have been implemented. If an organization already has a professionally competent internal audit function, it is expected that an internal audit can provide added value for the organization to be more effective and efficient. To achieve that, two main objectives drive this research. First, we critically review the literature to understand the practice and effectiveness of internal auditing and what cultural impacts affect internal audit effectiveness.

RESEARCH METHODOLOGY

Qualitative research methods (Creswell, 2014) were used in this study to achieve research objectives based on a literature review. To carry out a detailed literature review, a systematic review approach (Silverman, 2016) is used, as it allows the researcher to use a systematic and transparent method that aims not only to gain an in-depth understanding of theoretical developments in a field but also to identify

critical gaps for research. Encourage further knowledge development (Opute et al., 2020).

RESULT AND DISCUSSION

Theory of Behavior and Organizational Culture

Behavioral theories based on individual limited rationality and organizational procedures for decision-making have been widely used in understanding what is behind people's behavior, actions, and decision-making (Cyert and March 1963; Opute, 2017). Limited rationality, introduced by Herbert Simon in 1957, explains that rational human behavior is influenced by access to information and human thinking capacity and depends on the dynamics of the environment in which humans are located.

Organizational culture is a characteristic of the company's habits in interacting with company personnel. According to Marcoulides and Heck (1993), defining organizational culture is a conceptual tool that can measure the suitability of organizational goals, tasks, and strategies and their effects. Organizational culture in critical aspects without the law is valid and reliable, so statements about the effect of culture on company performance will continue to be based on personal observation, case studies, and speculation. According to Glaser et al. (1987) stated that organizational culture is often illustrated in a shared sense. The symbols, rituals, patterns of belief, and myths that develop over time and serve as unifying organizations that become the glue are the organizational culture. Various forms of companies or organizations, of course, have different cultures; this is natural because organizations have different environments.

According to the cultural view, the values incorporated into an individual's mindset or organizational philosophy influence decision-making. Therefore, this study focused on national culture e.g. (Opute & Madichie, 2017) and organizational culture (Schein, 1985; Ogbonna & Harris, 2001; Cadden et al., 2013).

Functions and Role of Internal Audit

The function and role of internal audit in overall business performance support organizational management's and stakeholders' need for important information in decision-making. In addition, one of the internal audit functions focuses on evaluating internal processes and providing recommendations for improvement. (IIA, 2017).

Organizations must ensure that the internal audit team is fully resourced and professionally competent in providing value-added services to management to secure the organization to operate efficiently and effectively (IIA, 2017). In addition, internal auditors are expected to have an in-depth understanding of organizational systems, processes, and culture, as well as evaluate and monitor organizational trends to ensure that these trends are in line with organizational expectations and comply with ethical and accountability standards (IIA, 2017).

The internal audit focuses on identifying risks that may prevent the organization from achieving its stated objectives and informing management to ensure that proactive actions are taken to minimize or eliminate them. According to the Institute of Internal Auditors, the roles performed by internal auditors include evaluating risk, assessing the adequacy of controls, ensuring data accuracy, improving operations, promoting ethics, monitoring compliance, and others.

Factors Affecting the Effectiveness of Internal Audit in The Organization

The functional capabilities of internal auditors are a tremendous source of added value to top management in their corporate governance responsibilities and organizational risk management obligations (Institute of Internal Auditors). In their contribution, Arena and Azzone (2009) relate internal audit effectiveness to team resources and competencies, processes and activities, and organizational and relational factors.

The importance of internal audit for organizations to effectively respond to the evolving challenges in the global economy, the IIA in 2017 explained in the IPPF to include ten core principles covering integrity, professional competence and due care, independence, strategic alignment, adequate resources, and good positioning. Appropriate, continuous competency improvement, effective communication, becoming a risk-based assurance provider, broad-minded and proactive, and encouraging organizational improvement. This literature review approach legitimized that audit quality (Salehi et al., 2019; Kaawaase

et al., 2016) and audit effectiveness (Arena, Azzone, 2009; Salih & Hla, 2016) depend on the dynamics of individual settings.

Internal Audit Culture and Quality

In the context of national culture, cultural characteristics include norms, collective experience, traditions, religion, and social history (Hofstede, 1980; Kanter and Corn, 1994&Hofstede et al. (2010) added dimensions of national culture, namely power distance, uncertainty avoidance, and individualism versus collectivism. In internal auditing, the dimensions of power distance, uncertainty avoidance, and individualism versus collectivism are considered.

According to Hofstede and Peterson (2000, p.403), power distance is the extent to which members of organizations and institutions that are less powerful (such as families) expect and accept that power is distributed unequally. In comparison, uncertainty avoidance captures a culture of intolerance for uncertainty and ambiguity. While the dimensions of individualism versus collectivism capture the extent to which individuals are integrated into groups.

Lenz and Hahn (2015) identified factors that influence the effectiveness of internal audit including senior management support, internal auditor skills and competencies, and organizational characteristics (including politics and culture, role ambiguity and role conflict). In further literature, culture has been pointed to as a factor influencing the effectiveness of internal audit (Dicle & Usluer, 2016; Endaya and Hanefah, 2013). Mihret and Yismaw (2007) show the positive effect of management support on internal audit effectiveness but not for organizational culture.

Dicle and Usluer (2016) found that masculinity has a negative effect on the effectiveness of internal audit. This study also found a partial negative relationship of power distance with the effectiveness of internal audit. Furthermore, Dicle and Usluer (2016) found a negative relationship between uncertainty avoidance and internal audit effectiveness, and collectivism and internal audit effectiveness.

In another study that also uses Hofstede's theoretical framework, Alzeban (2015) examines the impact of cultural dimensions (power distance, uncertainty avoidance and individualism) on the quality of internal audit in Saudi Arabia. According to the study, high power distance and high uncertainty avoidance will lead to low internal audit quality. Zare and Mohammadi (2016) explored the influence of culture on the quality of internal control in Iranian companies, and found that the power gap and uncertainty avoidance had a negative impact on the quality of internal control, while individualism had no effect. on internal audit control.

Usman and Widagdo (2016), found a significant influence of a culture of reluctance, in relation to power distance, on the effectiveness of internal audit in the government. According to the attitude and behavior theory, when the auditor conducts an audit, there must be an attitude or behavior of the auditor who feels reluctant when examining the auditee whose position is above him. This is where the attitude and behavior of an auditor can affect the effectiveness of the government's internal audit.

Organizational Culture and Internal Audit Quality

Salih and Hla (2016) argue that organizational culture helps the success of organizational development, therefore, they conclude that organizational culture significantly impacts the quality of internal audit and its effectiveness broadly.

The better the organizational culture that runs, the higher the performance of the auditor. An organizational culture value system that grows strong is able to refer the organization towards better development (Handayani 2019). Owoyemi and Ekwoaba (2014), in their research on organizational culture as a management control tool, describe organizational culture as a double-edged sword. In other words, organizational culture can have a negative or positive controlling impact.

Arena and Azzone (2009) identify, among other things, the characteristics of the internal audit team, as well as processes and audit activities as factors that affect the effectiveness of internal audit. Mihret and Yismaw (2007) suggest that organizational culture affects the effectiveness of internal audit. According to Mihret and Yismaw (2007), the core features of organizational culture include management support and organizational arrangements. According to Ahmad et al. (2009), features of organizational culture that affect the effectiveness of internal audit include inadequate support from top management,

inadequate knowledge and training on effective audit approaches for internal auditors, and the level of acceptance and appreciation of internal audit by management.

According to Ubaidillah (2018), organizational culture harms the effectiveness of the audit inspectorate with independence as a moderating variable. This shows that the organizational culture in the government still has a strong brotherly culture or power distance, respecting elders and close friends. The higher the level of organizational culture, the lower the attitude of independence. This will result in ineffectiveness in conducting financial audits.

According to Saputro and Anggono (2022), there is no influence of organizational culture on the quality of internal audit because there are different organizational cultures in each organization so when conducting research, different objects and places where the results obtained can be different and even different. Behind the results. Different organizational cultures will produce different practices in an organization from other organizations. In this study, there were four inspectorate agencies used as research samples and located in the same area so that they may have relatively the same organizational culture. This is what makes respondents' perception different from previous studies because of differences in organizational culture.

According to Soeharjono (2011) the influence of a culture of reluctance on the bureaucracy makes the internal control system ineffective, although in certain situations it can lead to a cautious assertive attitude from subordinates to superiors (conditional and situational). There are things that need to be underlined, namely that high uncertainty avoidance has been empirically proven to make the control environment high or effective. High uncertainty avoidance can be interpreted that subordinates "wait for instructions from superiors" because they feel that their superiors have more rights to decide an issue of uncertainty or ambiguity. In a pre-condition of subordinates "waiting for instructions from superiors", superiors develop a policy of encouraging frank speaking from their subordinates.

CONCLUSIONS

The internal audit function is seen as a tool to evaluate and improve the effectiveness of risk management and control (Dicle and Usluer, 2016; Mihret et al., 2010; Lenz and Hahn, 2015). As further literature shows, internal audit not only aids risk management but also serves as a tool of control, regulation, and governance. An important component in understanding internal audit relates to the supporting role of organizational governance. Organizational governance is a core element of internal audit and helps align management's interests with those of other stakeholders. The literature suggests internal audit can assist organizations in evaluating and improving organizational governance processes (IIA, 2017).

Hofstede's cultural theoretical framework has been used by many experts in understanding how culture affects the quality and effectiveness of internal audit. With regard to power distance (or gap), uncertainty avoidance, and individualism, Zare and Mohammadi (2016) found a negative influence on internal audit controls for power distance and uncertainty avoidance, but individualism had an influence on internal audit controls. Alzeban (2015) shows that high power distance and high uncertainty avoidance will lead to low internal audit quality, while individualism has a positive impact on internal audit quality. Dicle and Usluer (2016) found that masculinity has a negative effect on internal audit effectiveness, and there is a negative relationship between uncertainty avoidance and internal audit effectiveness, but there is no effect on collectivism on internal audit effectiveness.

Various organizational culture factors that affect the effectiveness of internal auditing can include the characteristics of the internal audit team (Arena and Azzone, 2009), management support and organizational arrangements (Mihret and Yismaw, 2007), and inadequate support from top management, inadequate knowledge and training. inadequate. internal auditors, and the level of acceptance and appreciation of internal audit by management (Ahmad et al., 2009).

The purpose of this study is to contribute to an understanding of the effectiveness of internal audit and the association of cultural factors. On the evidence drawn from the literature review, two main conclusions are presented in this paper: the nature of internal audit, and how culture impacts internal audit effectiveness. From the literature reviewed, internal audit knowledge has evolved from a focus on evaluating and improving the effectiveness of risk management to encompassing corporate governance

and control processes. Internal audit not only helps by playing a safeguard role in fighting corruption and managing risk, but also serves as a guard in ensuring that environmental, social and corporate governance features are considered.

Referring to the substance of culture, this study takes a cultural point of view in increasing knowledge about the effectiveness of internal audit. (Hofstede, 1980; Hope et al., 2008) argue that national cultural values can influence managerial decisions. In the overall evidence obtained from the literature review, culture influences the quality and effectiveness of internal audit (eg Dicle and Usluer, 2016; Zare & Mohammadi, 2016; Alzeban, 2015). Cultural factors that play a role include power distance, uncertainty avoidance, individualism, and masculinity.

Although Mihret and Yismaw (2007) did not find a strong impact of organizational culture on internal audit effectiveness, they suggested the need to improve the technical capabilities of internal audit staff, Ahmad et al. (2009) argue that increasing knowledge and providing training are features of organizational culture and have an impact on the effectiveness of internal audit.

DAFTAR REFERENSI

- Ahmad, H. N., Othman, R., Othman, R. and Jusoff, K. (2009), "The effectiveness of internal audit in Malaysian public sector", *Journal of Modern Accounting and Auditing*, Vol. 5 No. 9, pp. 53-62.
- Alzeban, A. (2015), "The impact of culture on the quality of internal audit: An empirical study", *Journal of Accounting, Auditing & Finance*, Vol. 30 No. 1, pp. 57-77.
- Ahmad, H. N., Othman, R., Othman, R. and Jusoff, K. (2009), "The effectiveness of internal audit in Malaysian public sector", *Journal of Modern Accounting and Auditing*, Vol. 5 No. 9, pp. 53-62.
- Alzeban, A. (2015), "The impact of culture on the quality of internal audit: An empirical study", *Journal of Accounting, Auditing & Finance*, Vol. 30 No. 1, pp. 57-77.
- Arena, M. and Azzone, G. (2009), "Identifying the organisational drivers of internal audit effectiveness", *International Journal of Auditing*, Vol. 13 No. 1. <https://doi.org/10.1111/j.1099-1123.2008.00392.x>
- Cadden, T., Marshall, D. and Cao, G. (2013), "Opposites attract: organisational culture and supply chain performance", *Supply Chain Management*, Vol. 18 No. 1, pp. 86- 103.
- Creswell, John W. (2014), *Research design: Qualitative, quantitative, and mixed methods approaches* (4th ed.). Thousand Oaks: Sage.
- Cyert, R. M. and March, J. G. (1963), *A behavioral theory of the firm*. Prentice-Hall, Englewood Cliffs, NJ.
- Dicle, U. and Usluer. (2016), "The Relationship between Culture and Effectiveness of Internal Auditing, an Empirical Study", *International Journal of Contemporary Applied Sciences*, Vol. 3, No. 1.
- Endaya, K.A., & Hanefah, M.M. (2013). *Internal Audit Effectiveness: An Approach Proposition to Develop the Theoretical Framework*. *Research Journal of Finance and Accounting*, 4, 92-102.
- Hofstede, G. and Peterson, M. (2000), "Culture: national values and organizational practices", in Ashkanasy, N., Wilderom, C. and Peterson, M. (Eds.): *Handbook of Organizational Culture and Climate*, pp.401–416, Sage, London.
- Hofstede, G. (1980), *Culture's Consequences*, Sage, Beverly Hills, CA.
- Hofstede, G. (1991), *Cultures and organizations: Software of the mind*. Berkshire, UK: McGraw-Hill.
- Hofstede, G. (2001), *Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations*. (2nd ed.) Thousand Oaks, CA: SAGE.

- Hofstede, G. J. & Minkov, M. (2010), *Cultures and Organizations: Software of the Mind: Intercultural Cooperation and its Importance for Survival*, 3rd ed., McGraw Hill, New York.
- Holm, M. and Ax, C. (2019), "The interactive effect of competition intensity and customer service competition on customer accounting sophistication - Evidence of positive and negative associations", *Management Accounting Research*,
- Hope, O., Kang, T., Thomas, W. and Yoo, Y. (2008), "Culture and auditor choice: A test of the secrecy hypothesis", *Journal Account Public Policy*, pp. 357-373.
- Institute of Internal Auditors (2004), *Internal auditing: Adding value across the board, A look at the profession and corporate governance*
- Institute of Internal Auditors (2008), *All in a day's work: A look at the varied responsibilities of internal auditors*. Accessed on 20th August, 2019 at: www.theiia.org
- Kaawaase, T., Assad, M., Kitindi, E. and Nkundabanyanga, S. (2016), "Audit quality differences amongst audit firms in a developing economy: The case of Uganda", *Journal of Accounting in Emerging Economies*, Vol. 6 No. 3, pp. 269-290.
- Kanter, R.M. and Corn, R.I. (1994), "Do cultural differences make a business difference? Contextual factors affecting cross-cultural relationship success", *Journal of Management Development*, Vol. 13 No. 2, pp. 5-23.
- Lenz, R. and Hahn, U. (2015), "A synthesis of empirical internal audit effectiveness literature pointing to new research opportunities", *Managerial Auditing Journal*, Vol. 30 No. 1, pp. 5-33.
- Lenz, R., Sarens, G. and D'Silva, K. (2014), "Probing the discriminatory power of characteristics of internal audit functions: Sorting the wheat from the chaff", *International Journal of Auditing*, Vol. 18, pp. 126-138.
- Mihret D. G. and Yismaw A. W. (2007), "Internal audit effectiveness: An Ethiopian public sector case study" *Managerial Auditing Journal*, Vol. 22 No. 5, pp. 470-484.
- Mihret, D. G., Kieran, J. and Mula, J. M. (2010), "Antecedents and organisational performance implications of internal audit effectiveness: some propositions and research agenda", *Pacific Accounting Review*, Vol. 22 No. 3, pp. 224-252.
- Nagy, A. L. and Cenker, W. J. (2002), "An assessment of the newly defined internal audit function", *Managerial Auditing Journal*, Vol. 17 No. 3, pp. 130-137.
- Ogbonna, E. and Harris, L. (2001), "Managing Organisational Culture: Insight From Hospitality Industry", *Human Resource Journal* . Vol. 12 No. 1, pp. 33-53
- Opute, A. P. and Madichie, N. (2017), "Accounting-Marketing integration Dimensions and antecedents: Insights from a Frontier Market", *Journal of Business and Industrial Marketing*, Vol. 32 No. 8, pp. 1144-1158.
- Opute, A. P. (2017), "Exploring Personality, Identity and Self-Concept among Young Consumers (Chapter Five)", *Young Consumer Behaviour: A Research Companion*, Routledge (Taylor and Francis). ISBN: 978-0-415-79008-6.
- Opute, A.P., Irene, B.N. and Iwu, C.G. (2020), "Tourism service and digital technologies: A value creation perspective", *African Journal of Hospitality, Tourism and Leisure*, Vol. 9, No. 2, ISSN:223-814X
- Owoyemi, O., & Ekwoaba, J.O. (2014). *Organisational Culture: A Tool for Management to Control, Motivate and Enhance Employees' Performance*.
- Salih, K.Y., & Hla, D.T. (2016). *Impact of Organizational Culture to Improve Audit Quality Assurance in the Public Sector*.

- Salehi, M., Fakhri Mahmoudi, M. and Daemi Gah, A. (2019), "A meta-analysis approach for determinants of effective factors on audit quality: Evidence from emerging market", *Journal of Accounting in Emerging Economies*, Vol. 9 No. 2, pp. 287-312.
- Sarens, G. and Abdolmohammadi, M. (2010), Cultural dimension effects on professionalism and uniformity of internal auditing practice in various countries. Mid-Year meeting of the Auditing Section of American Accounting Association, San Diego, CA.
- Anggono, A., & Saputro, F. (2022, June 30). Pengaruh Budaya dan Profesionalisme Pada Efektivitas Auditor Internal Pemerintah (Studi Pada Inspektorat di Madura). *Behavioral Accounting Journal*, 5(1), 1-16.
- Schein, E. H. (1985), *Organizational Culture and Leadership*, San Francisco: Jossey- Bass Publishers
- Schwartz, S. H. (1994). Mapping and Interpreting Cultural Differences around the World appear in *Comparing Cultures, Dimensions of Culture in a Comparative Perspective*.
- Silverman, D. (2016), *Qualitative Research*, SAGE Publications Inc. London.
- Soeharjono, H. I. (2011). Pengaruh Budaya Birokrasi Ewu Pakewuh Terhadap Efektivitas Sistem Pengendalian Internal. *Jurnal Ilmu Administrasi*, 7(3).
- Usman, & Widagdo, A. K. (2016). Pengaruh Independensi dan Budaya Ewu Pakewuh Terhadap Efektivitas Audit Internal Pemerintah. *The 3rd Call for Syariah Paper*.
- Zare, M., & Mohammadi, M.H. (2016). Effect of Culture on Quality of Internal Controls in Companies Listed on Tehran Stock Exchange. *International journal of humanities and social sciences*, 1782-178