

Probing into the Power of Independence and Standards Usage as Value-Added Attributes and Implementation of Recommendations

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Abstract

This study investigates the perspectives of internal auditors and their stakeholders on whether independence, objectivity, and standard usage will lead to value-added and implementation of the recommendations of internal audit function (IAF). Using a survey, we collected data from 142 Institute of Internal Auditors (IIA) members in Ghana and 139 stakeholders. We used PLS SEM to test the hypothesis. The findings suggest that independence, objectivity, and compliance with standards would add value, as perceived by both internal auditors and their stakeholders. The results from stakeholders suggest that independence and objectivity, compliance with standards, and value-added will lead to the implementation of recommendations. However, internal auditors perceive that compliance with standards and value-added will not automatically result in the implementation of recommendations. This study represents the first effort to investigate the impact of independence and objectivity, compliance with standards on value-added, and the implementation of recommendations.

Keywords: Independence and objectivity, compliance with standards, value-added, implementation of recommendations, internal auditing.

Introduction

In the midst of a changing and complex business environment, internal auditors face diverse challenges and prospects consisting of technological changes, organizational structures, increasing competition, expanding scope, and so on. This requires an internal audit function to develop strategies that enable it to deal with an expanded variety of services. However, as the need for an expanded diversity of activities increases, there is a higher tendency for the professionalism of the function to be compromised. Mutchler et al. (2003) argue that as the responsibilities of the internal audit function (IAF) broaden, there is greater demand for independence, objectivity, and accountability. Institute of Internal Auditors (IIA, 2017) require that the IAF be independent

and that internal auditors to be objective in their duties. The standard defines independence as “the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner” (IIA, 2017, p 3); and objectivity as “an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made” (IIA, 2017, p 4). The standards indicate how an internal auditor may ensure that his/her independence or objectivity is not impaired and that in situations where independence or objectivity is impaired, the auditor must disclose to suitable parties.

Hence, it is obvious that the Institute of Internal Auditors (IIA) takes a solid position on the importance of an internal auditor’s

independence and objectivity. Independence and objectivity are key attributes of internal auditing quality. The assurance services offered by auditors obtain their value and reliability from the essential expectations of independence in mind and appearance (Stewart & Subramaniam, 2010). Asairy (1993) reports that an important feature of IA's professed success is its independence from additional corporate activities. While internal audit engagement in risk management can add value to the organization, there is also the risk that it could compromise independence and objectivity. According to Van Peurse (2004), there is a strong possibility of confusion in the internal auditor-management relationship. An internal auditor is required to support management by undertaking responsibilities. At the same time, the auditor must be independent when evaluating management effectiveness. It has been argued that the assessment of the strength of an internal audit department should be based on the level of independence from management and undertaking its responsibilities (Bou-Raad, 2000). Van Peurse (2004) reports that independence from management is a leading factor for successful auditing programs.

The viability of the IAF has been argued to be dependent on organizational independence (Brown, 1983). Auditors must be sufficiently independent from auditees to perform their duties without interference. Organizational independence and objectivity contribute to the accuracy of auditors' work and provide confidence to stakeholders to rely on IAF reports. Abbott et al. (2015) document that within the IAF, capability and independence are vital and distinct concepts that interact to obtain quality outcomes. Chambers et al. (1987) maintain that an internal audit's organizational independence is vital to its effectiveness. They indicate that it protects auditors from intimidation and increases their objectivity. Being independent provides auditors with unlimited access to documents and unconstrained powers of investigation, which are vital features of internal audit value creation (Al-Twaijry et al., 2003).

Existing studies on internal audit independence and objectivity focus on the credibility and independence of the IAF (Brierley et al., 2001) and the provision of organizational independence (Cohen & Sayag, 2010). Ahmad and Taylor (2009) developed how IA can measure role conflict and

ambiguity and commitment to independence. Others have also examined possible threats to the objectivity of internal auditors (Plumlee, 1985). Norman et al. (2010), argue that the reporting lines for the head of internal audit may create threats to the independence and objectivity of the IAF. Christopher et al., (2009) introduce scores of independence threat, and analysis of the independence of IAF taking threats into consideration. However, these studies have not focused on the ability of the internal auditor to add value when independent and objective.

Internal auditing is undertaken in diverse cultural and legal settings "for organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment". Hence, compliance with IIA standards is indispensable for meeting IAF requirements (ISPPIA, 2017, p. 1). Complying with the Standards and Code of Ethics of the IIA is obligatory for internal auditors and those performing internal auditing services. According to Ridley and D'Silva (1997), compliance with IIA standards contributes significantly to the quality of internal audit activities. Specifically, they indicated that the "professional standards are essential guide for ensuring that internal audit adds value through the service it provides" (p. 19).

Studies on standards are limited to compliance with internal audit standards (Leung & Cooper, 2009; Abdolmohammadi, 2009) and the likely relationship between the scope of culture and differences in professed use/compliance with standards (Abdolmohammadi & Sarens, 2011). Other studies have examined differences in the extent to which internal audit functions operate in the USA and selected European countries affiliated with the IIA (Burnaby, Abdolmohammadi et al., 2009; Marais et al., 2009).

Studies on the IAF in Ghana have mostly focused on the public sector's internal audit function, with a few exceptions (Simpson et al., 2016). For example, Onumah and Krah (2012) investigated the role of IA and the barriers affecting their efficiency in the public sector in Ghana. Tackie et al. (2016) studied the factors that determine an effective IA in a decentralized local government system. Asiedu and Deffor (2017) studied the association between

corruption and efficient IAF in the Ghanaian context, focusing on the Internal Audit Agency Act (IAAA) 2003 (Act 658). Again, despite a large number of practitioner directions on the importance of independence and objectivity, little has been identified on how independence, objectivity, and the use of standards interact with value-added and ultimately the implementation of the recommendations of the IAF in Ghana. Therefore, we investigated the association between independence and objectivity, the use of standards, and value added. We further argue that the independence and objectivity of the internal auditor and compliance with standards will add value and ultimately lead to the implementation of the IAF recommendations. Consequently, this study investigates the relationship between an internal auditor's independence and objectivity and his/her ability to add value in Ghana. In addition, the relationship between internal auditors' use of standards, their ability to add value, and the ultimate effect of value added on the implementation of IA recommendations was examined. The following sections provide the literature review, conceptual framework, and hypotheses. Additionally, the study methods, results, discussion, and conclusions are presented.

Literature Review and Hypotheses Development

Independence and objectivity

The aim of an independent and objective IA function is to generate value for the firm by improving procedures and reducing business risks (Euleric et al., 2019). A previous study by Mihret and Yismaw (2007) on internal audit value drivers found firm independence, in addition to the objectivity of those carrying out the responsibility (Mutchler, 2003), as essential for value-added services. There is a wide range of definitions for independence and objectivity. However, there is basic agreement that IAs must possess these qualities to certify the trustworthiness of an audit (Goodwin and Yeo, 2001; Gramling et al., 2004). The IIA promotes IA as an independent activity that offers value-added assurance and consultations. Therefore, the IAF is considered the basis for building an efficient CG (IIA, 2002). Prior studies emphasize that when internal auditors lack independence, it damages the auditor's capability to assure the

primary stakeholders of their ability to undertake their responsibilities efficiently (Chambers & Odar, 2015). In essence, this extended role requires providing additional services introduced by internal audit stakeholders to ensure accountability. This brings about matters of reliability and integrity based on the association among stakeholders. Mutchler (2003) argues that the expanded IA responsibilities amidst the changing business environment and economic rivalry are generating pressure on the IAF, which may endanger its independence. Krogstad et al., (1999) indicated that IA create value if its reports are objective as well as shielded from whatever form of fundamental compression or incentive to deliver a specific result. As a result, there is a need to protect independence and objectivity to permit IAs to efficiently achieve consulting plus assurance services (D'Onza et al., 2015). Thus:

H1: The independence and objectivity of the IAF have a relationship with value addition.

H2: There is a relationship between independence, objectivity, and implementation of IA recommendations.

IAF use of standards

The use of standards help internal auditors to produce a high level of calibration, which may result in global best practices in IAs' activities. Standards offer machinery to increase value and uniformity across regulatory and economic environments (Leung & Cooper, 2009). Therefore, standards are decisive instruments for the IIA to encourage professionalism and global standardization of internal auditing activities. Consequently, the IIA's (2008) value appraisal guidance emphasizes the use of standards as an integral part of IAA efficiency. The use of or compliance with standards is considered an objective assessment of the usefulness of the IAA value to IA stakeholders in decision making to rely on the IAF (Abdolmohammadi & Sarens, 2011). The IIA (2008) uses "careful study, consultation, and deliberation about the basic principles for providing internal audit services" (as cited by Abdolmohammadi & Sarens, 2009, p. 4) to develop standards. These Standards outline the fundamental principles that characterize internal auditing activities. They offer a context for executing and encouraging a large variety of

value-adding IAA, creating grounds for assessing the performance of the IAF and fostering enhanced organizational procedures and operations (IIA, 2008). Accordingly, it is believed that the use of standards by IAs will create the required value for firms; thus, the following hypothesis is proposed:

H3: The ability to use or comply with standards is associated with value-added.

H4: There is a relationship between usage or compliance with standards and implementation of IA recommendations.

Implementation of the recommendations

The value added by the internal auditor may influence their status in organizations and also impact their level of acceptance and, consequently, the implementation of their recommendations. Studies in psychology and organizational behavior reveal that the performance of an individual on past activities impacts the judgement of other people placed on that individual (Sumer & Knight, 1996; Reilly et al., 1998). Miller and Napier (1993) indicated that when a professional claims to have expertise, it reflects the professional's ability to address important societal problems. Similarly, the internal auditor's ability to provide the required value to the firm's operations can influence the importance of management places on the recommendations of the function. Mihret and Grant (2017) argue that the IAs' advisory services on the effective and efficient means of using resources help management address potential problems that could arise for the firm. They further indicated that when the IAF possesses the skills and capabilities needed for adding value, it can impact on its acceptance by IA stakeholders. Thus, it is hypothesized that

H5: There is a relationship between value-added and implementation of IA recommendations.

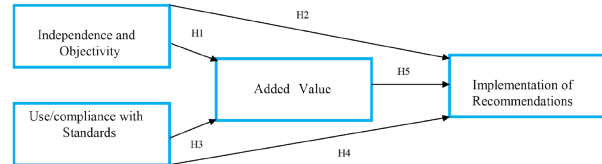
Conceptual Framework

The conceptual framework of this study is illustrated in Figure 1. We depend on prior studies to postulate that independence, objectivity, and compliance with standards may lead to the value-added and implementation of the recommendations of the internal audit function. We argue that internal auditors who are highly independent and objective and comply with standards will add value (D'Onza et al., 2015) to

firms' operations. By extension, if the IAF adds value, it will ultimately lead to the implementation of its recommendations.

Figure 1

Conceptual Framework



Research Methods

We used a survey method to obtain data from members of the Institute of Internal Auditors, Ghana, and their primary stakeholders using questionnaires. Data were collected from the active members of the Institute in September 2018. We distributed the questionnaire to 200 active members and 300 stakeholders and received 139 useable responses. A total of 142 useable responses were retrieved from internal auditors. The stakeholder respondents included management, audit committee members, and board members.

Measurement of variables

The independence and objectivity of the IAF were measured by adapting the methods described by D'Onza and Sarens (2018) and Subramaniam et al. (2011). There is perceived independence and objectivity if the internal auditor reports to an audit committee or board. Perceived internal audit use of the standard was measured by adapting Leung and Cooper (2011) and Abdolmohammadi and Sarens (2011). It was measured by four items contained in the ISPPIA as key factors in value-added, the use of IIA's code of ethics, and other regulations. The items were assigned a value from 1 to 7, where 1 = strongly disagree and 7 = strongly agree.

The internal audit's value-added (VALUEADDED/SVADDED) was measured using a combination of items adapted from the Institute of Internal Auditors Research Foundation (2013) and Roth (2003). These items measure the perceived value added by the IAF. The variable

assumed a value from 1 to 7, where 1 equals no value, and 7 equals extensive added value.

The supposed implementation of the internal audit function's recommendations was measured using the extent to which the recommendations of the functions were implemented, the extent to which management requests for assurance and consultations, and external audit reliance on the work of the IAF. The items assumed a value of 1 = Never; 2 = Rarely, in less than 10% of the chances; 3 = Occasionally, in about 30% of the chances; 4 = Sometimes, in about 50% of the chances; 5 = Frequently, in about 70% of the chances; 6 = Usually, in about 90% of the chances; and 7 = Every time.

Data Management and Analysis

Partial least squares structural equation modeling (PLS-SEM) was used to authenticate the measurement model and test the hypotheses. We chose PLS-SEM because it accepts the testing of complex models and does not require normally distributed data (Hair et al., 2013). PLS-SEM uses the available data to estimate the path relationships in the model to decrease the error terms of the remaining variance of the endogenous constructs. We consider this feature to be appropriate in this study because the proposed model is exploratory and confirms the structural relationships. SmartPLS version 3.2.8 was used to estimate the relationship. We ascertained the paths using bootstrapping as a resampling method (N=5000 resamples) to determine the significance of the paths from the observed distributions obtained from resampling.

Results

The results of the descriptive statistics are based on the means and standard deviations of the variables. The results suggest that independence and objectivity (IAINDOBJ/SIAINDPEN) role have an average mean value of 6.04 and 4.70 from internal auditors and stakeholders respectively. This indicates that the independence and objectivity of the internal audit function are the key attributes that drive value. The use/compliance with standards (IAUSTD/SIAUSTD) for internal auditors and stakeholders obtained average mean of 5.82 and 4.80, respectively. This suggests that when the IAF uses the IIA standards and other regulations in their activities, they

help the organization to comply with rules and regulations and by so doing add value. The mean scores for implementation of recommendation (IMPLRECOM/IMPL_RECOM) are 5.22 and 4.44 from both perspectives. This signifies that there is a high tendency for the recommendations of IAF to be implemented by stakeholders when they are assumed to be adding value.

The results show overall average mean for value added (VALUEADDED/SValueAdded) is 5.77 and 4.60 for internal auditors and stakeholders respectively. This suggests that the respondents agree that added value is attained when the IAF possesses value-added characteristics and can undertake value-added operations.

Assessment of the Measurement Model

The quality of the measurement model was assessed using the reliability of the items and constructs, convergent reliability, and discriminant validity (Bagozzi 1994). We assessed the reliability of the indicators by using the outer loadings of each indicator. Hulland (1999) suggests that an indicator loading of 0.4 for reflective indicators is acceptable; all the items loaded above 0.7 on the constructs. Cronbach's alpha and composite reliability were used to assess the reliability, validity, and internal consistency of the constructs. The results in Table 1 indicate that all constructs were above the tolerable threshold (Hair et al., 2014). The accepted threshold for convergent validity, the average variance extracted (AVE), was expected to be above 0.50. This gives assurance that the measurement error does not control the alteration taken by the construct (Vandenbosch, 1996). We obtained an AVE of 0.638 and above for all constructs.

Discriminant validity was examined by considering the model parameters and measurement errors through the determination of the square roots of the average variance extracted (AVE) value for each construct. The results for each construct must be higher than those of all the other cross-correlations. Our results show that the constructs have acceptable convergent and discriminant validity, as shown in Table 2 (Fornell & Larcker 1981).

Table 1*Construct Reliability and Validity*

Constructs	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Internal Auditors			
IAIMPLRECOM	0.817	0.891	0.732
IAINDOBJ	0.883	0.920	0.742
IAUSTD	0.884	0.921	0.744
VALUEADDED	0.866	0.909	0.713
Stakeholders			
IMPL_RECOM	0.793	0.878	0.707
SIAINDPEN	0.811	0.876	0.638
SIAUSTD	0.898	0.929	0.766
SValueAdded	0.866	0.904	0.652

Table 2*Discriminant Validity - Fornell-Larcker Criterion Internal Auditors*

CONSTRUCTS	IAIMPLRECOM	IAINDOBJ	IAUSTD	VALUEADDED
IAIMPLRECOM	0.855			
IAINDOBJ	0.485	0.862		
IAUSTD	0.464	0.760	0.863	
VALUEADDED	0.461	0.828	0.767	0.845
Stakeholders				
	IMPL_RECOM	SIAINDPEN	SIAUSTD	SValueAdded
IMPL_RECOM	0.841			
SIAINDPEN	0.596	0.799		
SIAUSTD	0.570	0.713	0.875	
SValueAdded	0.576	0.781	0.655	0.808

Structural model analysis

In partial least squares (PLS), the next step in the analysis process after satisfying the measurement model is to estimate the specified structural equations. The path coefficients provide the strength and direction of the relationships between latent variables. The predictive ability of the parameter estimates on the endogenous constructs was evaluated using the R^2 (coefficient of determination), path coefficient, and Stone–Geisser Q^2 -test (Q^2) criteria. The results show R^2 values of 0.731 and 0.629 for the value added from

internal auditors and stakeholders, respectively. It also showed R^2 values of 0.259 and 0.416. We evaluated the predictive validity using a cross-validated redundancy index – Stone–Geisser Q^2 -test (Geisser, 1974; Stone, 1974). This was performed using the blindfolding technique by omitting a part of the data at a distance of seven. The outcome of this technique signifies that Q^2 for

all latent variables is greater than zero, suggesting that the model has predictive relevance.

Path analysis

Hypotheses 1 and 2 predict that the internal auditor’s ability to add value depends on its independence and objectivity in the organization. The results in Table 3 indicate a strong and positive relationship between increased levels of independence, objectivity, and value-added ($\beta = 0.580, p\text{-value} = 0.000; \beta = 0.638, p\text{-value} = 0.000$) from both internal auditors and stakeholders.

Consequently, the ability to add value is positively related to the IAF’s firm-wide independence and performing audit engagement with fairness and objectivity. Hypotheses 3 and 4 predict the relationship between independence, objectivity, and the implementation of recommendations. The results from the perspective of internal auditors ($\beta = 0.252, p\text{-value} = 0.043$) and stakeholders suggest a strong positive relationship between independence, objectivity, and the implementation of recommendations ($\beta = 0.245, p\text{-value} = 0.013$). Hypotheses 5 and 6 predict that IAF’s compliance with standards will enhance the ability of the internal auditor to generate value for the organization’s activities. The results showed a significant association between the IAF’s use of standards and its ability

to add value ($\beta = 0.327, p\text{-value} = 0.001; \beta = 0.200, p\text{-value} = 0.029$). Hypotheses 7 and 8 predict the relationship between compliance with standards and implementation of recommendations. The results from the perspective of internal auditors did not reveal any significant association ($\beta = 0.191, p\text{-value} = 0.107$). However, the results from the stakeholders suggest a strong positive relationship ($\beta = 0.251, p\text{-value} = 0.009$) between compliance with standards and the implementation of recommendations.

Hypotheses 9 and 10 determine the association between the value-added and implementation of IA recommendations from two perspectives. The results present a significant relationship between value added and the implementation of IA recommendations ($\beta = 0.221, p\text{-value} = 0.038$) from stakeholders’ perspectives. Nevertheless, internal auditors’ perspectives were not supported. This indicates that when the IAF exhibits value-added attributes in their activities in organizations, their recommendations will be implemented by stakeholders and will also be consulted by management for decision making. On the other hand, internal auditors believe that their value-added does not necessarily result in the implementation of their recommendations.

Table 3

Results of the Structural Model with PLS-SEM

Hypothesis Path	Path Coefficients	P Values	Remarks
Internal Auditors			
IAINDOBJ -> VALUEADDED	0.580	0.000	Supported
IAINDOBJ -> IAIMPLRECOM	0.252	0.043	Supported
IAUSTD -> VALUEADDED	0.327	0.001	Supported
IAUSTD -> IAIMPLRECOM	0.191	0.107	Not Supported
VALUEADDED -> IAIMPLRECOM	0.106	0.812	Not Supported
Stakeholders			
SIAINDPEN -> SValueAdded	0.638	0.000	Supported
SIAINDPEN -> IMPL_RECOM	0.245	0.013	Supported
SIAUSTD -> SValueAdded	0.200	0.029	Supported
SIAUSTD -> IMPL_RECOM	0.251	0.009	Supported
SValueAdded -> IMPL_RECOM	0.220	0.038	Supported

Figure 2

Structural model for internal auditors

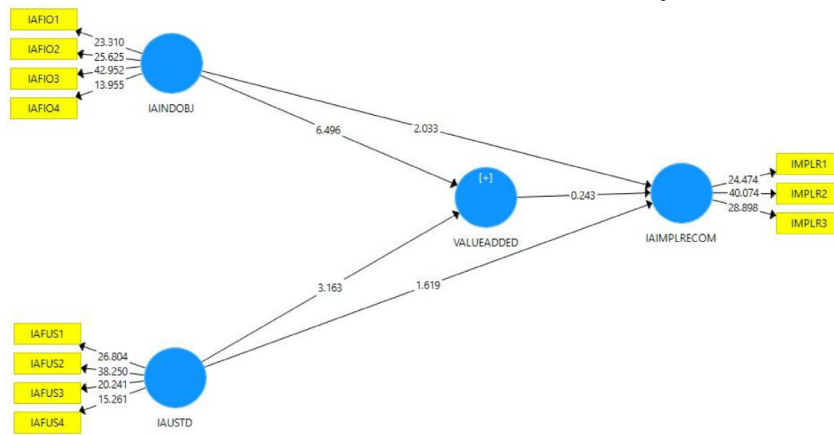
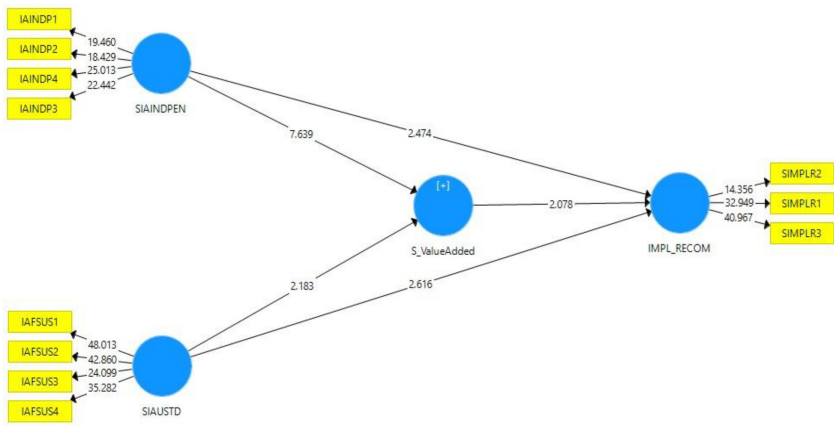


Figure 3

Structural model for internal audit stakeholders



Discussions

As specified above, there is a significant relationship between internal auditor independence and objectivity, and the ability to add value. The ISPPIA and the Code of Ethics of the IIA comprise the primary principles that internal auditors are required to maintain, along with standards of conduct that define their conduct required of them by the Institute (IIA, 2009b). The requirement involving objectivity expects the internal auditor to display the utmost stage of professional objectivity in identifying, assessing, and reporting evidence concerning the activity or procedures that are being examined. Moreover, internal auditors are required to create an unbiased evaluation of every applicable situation, and must not be unjustifiably manipulated by their

self-interest or that of others in the formation of opinions (Stewart & Subramaniam, 2010).

A number of attribute standards have been issued by the IIA and related practice recommendations regarding the independence and objectivity of the IA (IIA, 2009c). For example, Standard 1100 indicates “the internal audit activity must be independent, and internal auditors must be objective in performing their work.” The results of this study confirm that the IAF can perform its function effectively and add value if it is both independent and objective.

This is similar to D’Onza et al. (2015), who discovered that if IA activities are performed independently and objectively, they have a constructive influence on the value created by the IAF for organizations. Consequently, with the growing responsibilities of IA, there is also a need for more accountability, independence, and objectivity (Mutchler, 2003). In an attempt by the IAF to create value for organizations, it must not impair its independence (Christopher et al., 2009).

Mihret et al. (2010) claim that even though total independence is factually not possible because internal auditors are hired, an independent mind is indispensable and that it should be evident in the capability of IA to provide “tough” recommendations devoid of fear or favor.

The independence and objectivity of the IAF gives stakeholders assurance that the function can perform its role professionally and proficiently. The results of this study are consistent from the perspectives of both internal auditors and stakeholders. Thus, the IAF’s independence and objectivity are positively and significantly associated with the function’s ability to add value to the organization’s activities. The results confirm the initial premise from both perspectives that if the IAF undertakes its activities with independence and objectivity, it positively influences the value

they create for the organization. These results are consistent with those of D'Onza et al. (2015), who state that if the IAF maintains independence and objectivity by performing its duties with impartiality, it strengthens its credibility. This subsequently contributes to the dependability of the function from the perspective of stakeholders. Other studies have emphasized that if the IAF is deficient in independence in the organization, it impairs its ability to reassure stakeholders when helping them undertake their corporate governance roles effectively (Christopher et al., 2009; Chambers & Odar, 2015). Therefore, it is essential for internal auditors to maintain the highest level of professionalism and credibility when discharging their duties.

The "IIA's Code of Ethics" mandates all those who undertake internal audits to comply with standards. Compliance with standards enables the universal use of a uniform set of guidelines for practicing internal auditing (Abdolmohammadi, 2009). This result supports the initial assumption in H7 that the IAF's use of standards is significantly associated with value. This confirms the study by Ridley and D'Silva (1997), who found that conforming to professional standards is a vital driver of value added by the IAF. Other studies on the features that improve IAF effectiveness find the use of a risk valuation methodology in supporting audit planning and the professional proficiency of the IA as value drivers, which are related to IIA professional standards (Roth, 2000; Cohen & Sayag, 2010). The use of standards is considered a value-adding activity if it is supported by stakeholders. Clemmons (2007) reports that firms perceive standards as providing good values to the IAF, AC, and the organization as a whole. However, if the primary stakeholders of the firm do not perceive its use as a value-adding venture, its use would not be supported. Abdolmohammadi (2009) further indicated that stakeholders must perceive standards and compliance as value-adding activities. The use of standards would guide the IAF to perform its functions effectively and professionally.

From the stakeholders' perspective, our results find a significant positive association between the use of standards and implementation of recommendations of the function. This suggests that stakeholders perceive compliance with standards and regulations as a driver of the implementation and reliance on the

recommendation of the IAF. However, according to the perception of internal auditors, compliance with standards will not automatically lead to the implementation of recommendations if not supported by management (Abdolmohammadi, 2009).

The results from the stakeholder perspective indicate that the value created by the IAF will lead to the implementation of IAF recommendations. Similarly, Tang et al. (2017) found that managers can rely on IAF recommendations once they possess a respectable performance reputation for value creation. The quality of IAF is considered a value-added preposition (Sarens et al., 2012; Ulvi, 2015; Eulerich et al., 2019). When the IAF adds value and impacts the activities of the firm, management and AC will accept and implement the recommendations that they provide. When internal auditors are independent, objective, and have the expertise needed to add value and impact, they enable management and the AC to attend to existing business risks, which could have hampered the firm from accomplishing its corporate aims (Mihret & Grant, 2017).

It can be inferred from the results that if the function is perceived to impact the activities of the organization by stakeholders, their recommendations will be implemented to further strengthen the impact. However, if it is perceived that the IAF is ineffective, its recommendations will convey little or no influence on the decision-making process (Burton et al., 2012). It is expected that for the IAF to add value to the operations of the organization, it should provide credible recommendations and efficiently communicate with the primary stakeholders. This implies that when the internal auditor acquires the necessary skillsets to perform the functions, it impacts the operations of the firm and decision making. Experienced auditors' contributions to audit engagement are vital for providing value-added suggestions (Butcher et al., 2013; Aikins, 2013; Lowensohn et al., 2007). The satisfaction of the auditees with the work of the IAF may provide confidence in auditees and can subsequently influence management to implement their recommendations (Dain & Rahmat, 2017). The definition of IA stresses the title role of IAs in comprising both assurance and consulting services within firms (IIA, 2010; Gramling et al. 2013). This signifies that the IAF is required to offer assurance and consultations

with the management. However, if the function is ineffective and lacks good status in the organization, management will not rely on it for consulting and assurance services. The study supports Tang et al. (2017), which indicates that auditing performance status has a greater impact on management's decision to depend on the IAF for assurance and consultations.

The outcome from the perspective of internal auditors finds no significant relationship between the value added by the function and implementation of their recommendations. This suggests that internal auditors perceive that their added value sometimes results in the implementation of their recommendations. Consequently, it can be assumed that even though the IAF may be creating value in the operations of the firm, if management does not favor a particular recommendation, it will not be implemented. In addition, when management perceives audit recommendations as unpopular, expensive, or unrealistic (Mihret et al., 2010), they will not be implemented.

Conclusion

We examined whether the IAF's independence, objectivity, and compliance with standards could lead to value creation and ultimately result in the implementation of IAF recommendations. Our analyses rely on the argument that the value-added and implementation of recommendations of the IAF rests upon the complementary roles of independence, objectivity, and the use of standards. We tested several hypotheses by using PLS-SEM. We examined the perceptions of internal auditors and their primary stakeholders.

We find a statistically significant relationship between the function's independence, objectivity, and value-added from the perspectives of both internal auditors and stakeholders. This indicates that both parties agree that when the IAF is independent and objective, it contributes to the value created by the firms' activities. Our findings from the perspective of internal auditors and stakeholders suggest that IAF use of standards is significantly related to value added. This suggests that for the auditor to add value and influence, there is a need for use and compliance with standards and regulations. Again, we found a significant relationship between using standards and implementing recommendations, as perceived

by stakeholders. However, auditors perceive that their use of standards will not necessarily lead to the implementation of their recommendations, unless they are supported by stakeholders. The findings from stakeholders indicate a significant relationship between added value and implementation of IAFs recommendations. This indicates that when the IAF is perceived to add value to the activities of the organizations, management will consult the function for important decision-making and also implement the recommendations of the IAF. However, from the perspective of internal auditors, their value-added would not certainly lead to the implementation of their recommendations.

Our findings extend existing research and strengthen our understanding of the importance of independence, objectivity, and the use of standards by the IAF and relate it to value added to the activities of firms. We extend the literature on internal auditing by determining that when it comes to the implementation of recommendations, stakeholders attach importance to the value added by the IAF when it is considered to be independent and objective and also comply with standards.

This study provides practical implications for the growth of the concept of internal auditing in organizations and the profession at individual and institutional levels, especially from a developing country's perspective, where most internal auditing activities are still in the teething stage. The results suggest that independence, objectivity, and the use of standards will lead to value-added and, consequently, to the implementation of the function's recommendations. From this premise, the CAE and IAF would need to strive to obtain independence and be objective in all aspects of their activities. In addition, the IAF would need to adhere to the IIA code of ethics to minimize the various threats that may arise as a result of their involvement in certain activities that would undermine their independence and objectivity.

The IIA, both at the national and global levels, needs to play a crucial role at the institutional level. The Institute would need to sensitize the primary stakeholders of the IAF about the importance of independence and objectivity in value addition. By this, stakeholders would need to provide an enabling environment and reporting

lines that would encourage the independence and objectivity of the function.

We believe that more research is needed in this area to enrich the understanding of the significance of independence, objectivity, and the usage of standards. Alternative studies should be conducted to include other internal auditors who are not members of the Institute of Internal Auditors to determine the views of other internal auditors. Future research could investigate the determinants of internal auditor independence and objectivity. Other studies may also focus on the effects of the audit committee on independence, objectivity, and compliance with standards.

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