The Practice of Internal Audit Function in Financing Business Sector of Thailand

Sainatee Wongcomedee
Phaprukbaramee Ussahawanitchakit
Mahasarakham Business School, Mahasarakham University, Thailand

Keywords
Internal Audit Function, Internal Audit Competence, Internal Audit Objectivity, Internal Audit Investment

Abstract
Internal audit function plays a major role in financial business sector. This study aims to investigate the relationship of internal audit function on organization success. The participants were selected purposively from Executives of the internal audit department from Financial Group of The Stock Exchange of Thailand. The responses (20.37%) were requested to do the questionnaire with were specifically made for the practice of internal audit function issues. The ordinary least square regression was employed in analyzing. The results of the study presented that the internal audit competence and the internal audit objectivity of internal audit function have significant positive influence on fraud detection and internal audit excellence enhanced organization’s success.

1. Introduction
According to the fraud investigations, Enron had collapsed and declared bankruptcy in December 2001 (Chary, 2004). In another case, WorldCom failed corporate governance, accounting abuses, and outright greed. WorldCom was filed for bankruptcy protection after several disclosures regarding accounting irregularities in July 2002. In order to encourage trust in publicly traded companies, the Sarbanes Oxley Act of 2002 was signed into law. Followed by with the case study of the Enron scandal, accounting and reporting practices are required. The Act mandated a number of reforms to enhance corporate responsibility, financial disclosures and struggled corporation and accounting fraud (Culp and Hanke, 2003). As the financial crisis is increasingly affecting the economic activities, internal audit directors have to find ways to add value to the business (Bekiaris, et al., 2013). The role of Internal Auditing was introduced as a monitoring mechanism aimed at protecting company assets and ensuring reliable accounting information. In the following years, however, internal auditors tried to extend their areas of involvement beyond financial auditing and compliance, to include operational auditing, risk management and consulting activities (Bou-Raad, 2000; Spira and Page, 2003; Arena and Azzone, 2009).

The internal audit function (IAF) had had a corporate governance role in many organizations since early 1940s (Moeller, 2004) and the role has evolved continuously. The nature of internal audit, (hereafter IA), activity typically includes risk assessment, control assurance and compliance work and all of these map directly to corporate governance (Hermanson and Rittenberg, 2003). The corporate governance role for the IAF will likely take on importance given the new requirements placed on the Sarbanes Oxley Act of 2002 (hereafter SOX).

SOX significantly elevated the role of the IAF (Gramling, Maletta, Schneider, and Church 2004). The requirement of Section 302 of SOX described that the firm’s quarterly and annual reports had to report on and certify the effectiveness of its internal control structure and procedures (Desei, et. al., 2010). In May 2007, the Public Company Accounting Oversight Board (PCAOB) revised its guidance on auditing internal control by adopting Auditing Standard No. 5: An Audit of Internal Control over Financial Reporting that is integrated with an Audit of Financial Statements. According to this adoption and its accompanying guidance, the PCAOB explicitly encourages external auditors to “use the work of others to a greater extent when the work is performed by sufficiently competent and objective company personnel” (PCAOB 2007, 13). This requirement may increase external auditors’ reliance on the work of internal auditors when they perform the integrated audit and internal control assessment work (PCAOB, 2007). Moreover, there is a growing importance placed on expanded roles for the IAF in ensuring quality corporate governance (Antoine 2004).

The purpose of this study is to examine the relation of the IAF on organization success. In respond as a key component of the organization’s governance that the effective IAF help organizations accomplish their business objectives, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
The rest of the paper is composed of the first section which provides a brief outline of the underlying theories upon which this study is based and the relevant literatures and hypotheses development of all constructs, the second section which describes the methodology including data collection procedure and measurement, measure validation, and statistical technique, the third section which discusses the results of this study, the fourth part which explains the contributions and directions for future research and the final section that presents the conclusions of the study.

2. Literature review and hypothesis development

   Underlying theories: agency theory

   The contingency theory is a widely interested theory in the research of management and accounting information systems which considers both internal and external factors effecting the organization and the size of the organization and managerial practice (Chenhall, 2003; Anderson and Lanen, 1999). The crucial concern corporate governance arises from the separation of ownership and control in corporations. This is the essence of the agency problem, as articulated by early scholars such as Berle and Means (1932) and Jensen and Meckling (1976). Contingency scholars confirm that performance is a function of the fit between the organization and the environment and the strategy and structure (Duncan, 1972). This theory explains the ability of the organization to adjust to the environment that is necessary for consistency between the environment and the infrastructure (Sauser et al., 2009). In addition, Langfield-Smith (2006) proposes the link between corporate strategy, organizational structure, environment, technology, and control systems (Srikarsem and Ussahawanitchakit, 2009). Therefore, contingency maintains the appropriate fit between environment and strategy, resulting in enhanced organizational performance dependent upon firm goals, which is reflected by satisfied customers and employees (Lee and Miller, 1996).

   Background analysis

   This paper aims to examine the role that a firm’s internal audit function (IAF) plays to the organization success. Internal audit function plays an integral role in effective corporate governance as they can strengthen the internal control of business by monitoring the risk and compliance requirements according to the Sarbanes-Oxley Act of 2002 (Alles, Kogan and Vasarhelyi, 2008; Gramling, 2004). The literature review followed the studies of Maletta, 1993 and Desai et al. 2010 and professional guidance to develop measures of IAF (AICPA 1991; IIA 2008). These propose that IAF quality measures include (1) competence, (2) objectivity, (3) relative investment in the IAF, and (4) the nature and scope of IAF activities. This paper draw on one part of Shu Lin et al. (2010) that study the role of the internal audit function in the disclosure of material weaknesses with hypothesized relations between IAF attributes and the likelihood that a firm play to it, element of IAF attributes such as competence, objectivity and investment and element of IAF activities, those are as follows fieldwork QA, IA grade, financial focus, follow up and coordination. Likewise, Brown (1983) studied about independent auditor judgment in the evaluation of IAFs by dividing it into three areas competence, objectivity and quality of work. In addition, Maletta (1993) examined the decisions of external auditors to use internal auditors as assistants throughout the audit process. This study found that external auditors use a complex process when deciding whether or not to use the internal auditors as assistants, and also that there is a relationship among the three factors affecting the strength of the IA function (competence, work performance, and objectivity). This research aims to study three components of IAF: internal audit competence, internal audit objectivity and internal audit investment that shown the conceptual model of relationship between IAF: and organization success in Figure 1.
Figure 1 depicts this conceptual framework which represents the factors variables of IAF that determine whether the IAF supported organization success. The prior literature (e.g., see Maletta, 1993) represents that the strength of the IA function depends upon competence, work performance, and objectivity. This dependence is modelled in Figure 1 as IAF with the three factors consist of internal audit competence, internal audit objectivity and internal audit investment. Richie and Khorwatt (2007) suggested that Accounting Oversight Board requires the auditor to report the assessment of internal control system evaluation defined as focuses on depth understanding featured to assess the internal control system. As considered in the prior literature (e.g., see Maletta, 1993 and Desai et al., 2010), we assume that each factor can be assess nature of internal audit. For example, the internal audit competence of the IAFevaluatethree influences of internal control evaluation, composes of risk reduction, fraud detection and internal audit excellence, similarly to internal audit objectivity and internal audit investment. These internal control evaluation relationship between IAF and organization success represented through a box with connecting all these factors.

2.1 Internal Audit Function (IAF)

A statement on Standards for Attestation Engagements (SSAE) no. 16 means the internal audit function (IAF) which every employee plays and important role and irresponsible for an internal audit are the personnel within a service organization who perform the roles and responsibilities of an internal auditor, they consist of the IAF can also be other personnel who perform similar roles to that of an internal audit or other personnel within the service organization itself. According to Standard 1110 of the International Standards for the Professional Practice of Internal Auditing (IIA, 2004), it is necessary that the chief audit executive (CAE) should submit the reports to their bosses. In addition, the internal audit function is value added activities which provide assurance and consulting service with proficiency knowledge (IIA, 2012).

Christopher et al. (2009) reported that the increased importance of the IAF in enhancing corporate governance has reinforced indirectly through legislation, such as the Sarbanes Oxley Act (2002) in the USA and the CLERP Act (2004) in Australia. Gramling (2004) suggested that IAF would be accepted as an expanded role for the internal audit function that comprises an integral component of the network of parties having corporate governance responsibilities. Chapman (2001) describes organizational independence as the placement of the internal audit function in reporting structure so that they are free to determine the audit scope and perform audit work without interference that provide the assurance of organization’s achievement on mission. Thus, the hypothesis is proposed as followed:

Hypothesis 1d-3d: The internal audit functions of organizations, such as internal audit competence (1d), internal audit objectivity (2d) and internal audit investment (3d), have a positive effect on the organization success.

2.1.1 Internal Audit Competence (IAC)

Competence is defined as the educational level and professional experience of the internal auditor and other factors (Desai et al., 2010). The IIA’s global competency framework as a tool to determine the capabilities needed to meet the demands of the international professional practices framework (IPPF) for the success of the internal audit profession. The ability of each individual to perform the job properly concerning auditor qualifications such as educational background, certification, in-house training program and a 21-hour course of auditing within three years should be supported (Desai et al., 2010). The core of each performance framework consists of 10 core competencies including professional ethics and to promote professional conduct management audits. The development and management functions of internal audit IPPF apply international professional practices framework (IPPF) governance, risk, and control. The understanding of governance, risk and control at the enterprise, including business acumen are necessary for being professional auditors.

Cheetham & Chivers (1998) provided a model with consists of four key components, knowledge/cognitive competence, functional competence, personal or behavioural competence, and values/ethical competence. Knowledge/cognitive competence has been defined by the authors as the possession of appropriate work-related knowledge and the ability to put this to effective use. Functional competence is defined as the ability to perform a range of work-based tasks effectively to produce specific outcomes.

Coram et al., (2008) found that organizations that have an internal audit function are more likely than those without such functions to detect fraud within their organizations. In addition, organizations that rely on outsourcing for their internal audit are less likely to detect fraud than those carry out at least part of the functions of internal audit of their own. These findings suggest that internal audit adds value through
improved control and monitoring environment within the organization to detect fraud. These results also suggest that the treatment of the internal audit function within the enterprise be more efficient than completely outsourcing the function. The results of the review provide the research hypothesis as followed:

**Hypothesis 1a-1c:** Internal audit function competence has positive effect on fraud detection (a), risk reducing (b) and promoting internal audit excellence (c).

### 2.1.2 Internal Audit Objectivity (IAO)

IIA (1999) provided Objectivity’s concept as an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made.

Objectivity is a core quality of an internal auditor which involving coexistence of brilliant intellectual capacities, exemplary fairness and unspoiled by any conflicts of interests. Objectivity is a required attitude for the delivery of internal audit services. It is a condition that allows internal auditors to judge matters on the evidence without the influence of personal considerations (Calota, 2008). This quality is used by auditors both for analysis and decision-making purposes. Internal auditors should be objective throughout the entire internal audit mission, with a view to strengthening credibility required when presenting findings, recommendations, and conclusions. Anna *et al.* (2013) report the empirically examination study whether training grounds influence internal auditor’s objectivity. Results of their study indicate that internal auditors are less objective when they expect to move into senior management positions, relative to when internal auditing is not used as a training ground. The results of the review provide the research hypothesis as followed:

**Hypothesis 2a-2c:** Internal audit function objectivity has positive effect on fraud detection (a), risk reducing (b) and promoting internal audit excellence (c).

### 2.1.3 Internal Audit Investment (IAI)

According to an uncertain and challenging economy, organizations are seeking an approach to internal audit that goes beyond reviewing past activities. Instead, they want internal audits that are insightful, forward looking and go beyond preserving value to creating value on a departmental, divisional, or organization-wide level. Moreover, many internal audit functions establish goals to achieve higher value. However, they fall short in one or two ways. The first way consists of skill sets and competencies of the team which are not sufficiently cross-functional or develop in each team member to deliver the expected value, and second, the internal audit approach is not redesigned to facilitate a new approach in planning, execution and reporting of results. Carcello *et al.* (2005) examine factors associated with U.S. public companies’ investment in internal auditing with a survey administered to Chief Audit Executives of midsized U.S. 217 public companies. The results indicate that total internal audit budgets (in-house plus outsourced portions) are related to several factors associated with company risk, ability to pay for monitoring and auditing characteristics. Specifically, we find evidence that internal audit budgets are positively related to company size, leverage, and financial, service, and utility industries, relative amount of inventory, operating cash flows, and audit committee review of the internal audit budget. This study contributes to our understanding of internal audit services, and it allows companies to benchmark their investment in internal auditing. The results of the review provide the research hypothesis as followed:

**Hypothesis 3a-3c:** Internal audit function investment has positive effect on fraud detection (a), risk reducing (b) and promoting internal audit excellence (c).

### 2.2 The relationship between risk reduction, Fraud Detection and Internal audit excellence

Goodwin and Kent (2004) represent the results of organizations with an internal audit function that organization and for executive staff are more likely to detect and report fraud. These results are important for organization and for executive staff such as investors, regulators and corporate managers because it provides evidence on the value of the internal audit function. This evidence of ‘value’ is important for fraud detection. Based on the results, the research hypothesis is proposed as followed:

**Hypothesis 4a:** Fraud detection effectiveness has positive effect on risk reducing.

**Hypothesis 4b:** Fraud detection effectiveness has positive effect on promoting internal audit excellence.

### 2.3 Mediating of the relationship between Internal Audit Function and Organization Success

According to the consequence of internal audit function in this paper, under the influence of internal control evaluation, we focus on three components of internal audit assessment: risk reduction, fraud detection and internal audit excellence.
2.3.1 Risk Reduction

The definition of a risk as “an uncertainty which if it occurs would affect one or more objectives” also allows inclusion of opportunities as well as threats within the risk process, since an opportunity is simply an uncertainty with a positive effect on an objective (Hillson, 2006). When the organization has business risk, it can be reduced by risk management. Internal auditors can add value to the entity by providing assurance that its risk exposures are properly understood and managed (Walker et al., 2003; Leithhead, 1999). Internal audit should play a key role in monitoring a company's risk profile and identifying areas to improve risk management processes (Lindow and Race, 2002). As Walker et al. (2003, p. 52) assert that internal audit can help organizations identify and evaluate risks. Public sector enterprises are generally concerned with the delivery of service or beneficial outcome to the public at large with a social interest rather than commercial motive of profit maximization. However, in the process of achieving desired objectives, they have to face all kinds of risks which may be internal or external. Amongst the several control tools of risk management, internal audit is primarily used as an effective tool to manage operational, financial, legal and regulatory risks. Further, internal audit also facilitates in formulating strategic policies to achieve enterprise goals. Thus, the hypothesis is proposed as followed:

Hypothesis 5: The ability of risk reduction is a positive contribution to the success of the organization.

2.3.2 Fraud Detection

The Institute of Internal Auditors’ (IIA’s) IPPF defines fraud as: “Any illegal act characterized by deceit, concealment, or violation of trust”. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage. Dennis (1999) examined an auditor’s decision to investigate for fraud, he found a weak control system generates more errors than a strong system, increasing the probability that a given audit exception is due to error. Oguda et al. (2015) reported their study about effect of internal control on fraud detection which has a significant positive relationship between internal control and fraud detection. The internal audit function is an important function that has been shown to add value (Carey et al. 2000; Goodwin and Kent 2004; Carcello et al. 2005) and reduce detected errors by external auditors (Wallace and Kreutzfeldt 1991). Based upon the role of the IAF in practice, the hypothesis is proposed as followed:

Hypothesis 6: The ability or fraud detection is a positive contribution to the success of the organization.

2.3.3 Internal Audit Excellent

Audit excellent in this study is defined as operational on auditing of the auditors to ensure compliance with audit standards, can perform with the professionalism, can use variety of auditing tools, and learn new auditing techniques to improve the quality of auditing. The audit efficiency represented to the auditors who could reserve the resource utilization in the auditing processes. This process is well-timed and accomplishes the standard of auditing performance. Audit Effectiveness refers to the achievement of objectives of audit by assembling sufficient and appropriate audit evidence in order to get an opinion on the financial statements in accordance with audit standards.

The audit report is the most important evidence of the internal audit department. An internal audit department should provide advice on the risks that arise in the future of the business (Holt and Dezoo, 2009). Furthermore, the internal audit units should verify the existence of a process of external reporting that provides information for third parties (external auditors, markets, agencies, authorities, supervisors, etc.) about the policies and management and checking the existence of documentation covering all actions undertaken to achieve the firm’s objectives as well as the accessibility and transparency of the data used (Fernandez-Laviada, 2007). The internal audit department should analyze the difference in the reports and the main characteristics such as purpose, to verify the generated information allowing the identification of problematic areas, as well as any actions taken to correct the situation in which the reports are circulated and the information is up-to-date. Hence, the main objective of reporting is to provide information on the management of problems that may affect the achievement of the firm’s objectives. The acquisition of the question in this research is a component, confidence in the performance, audit standards, inspection plan covers. Therefore, the hypothesis is proposed as followed:

Hypothesis 7: The operationalon internal auditing excellence is a positive contribution to the success of the organization.

Organization Successes
The International Professional Practices Framework (IPPF) states that the internal audit will increase value when it provides important opportunities to achieve organizational objectives (IIA, 2009). The internal audit is a management tool which should be sensitive to the different requirements of the board, the audit committee, and the senior management such as the board of directors who need information about the long-term survival of the organization while the audit committee needs information about the quality of financial statements (Lenz and Sarens, 2012; Dobni et al., 2000). Therefore, the internal audit can help better respond to stakeholders leading to organizational value increase. Moreover, the corporation needs a very skilled and creative internal audit practice, which is versatile in their thinking and can launch audit systems and techniques to the newly employed technology. In this research, the organizational value increase refers to the ability of the organization to provide stability about manage service audit, and to reinvent and improve performance in both the short and long term to achieve the strategies objectives and goals.

3. Methodology
3.1 Sample and Data Collection Procedure
Data for this study was collected by the questionnaire survey. The sample are of Executives of the internal audit department from Financial Group in The Stock Exchange of Thailand. The questionnaires were sent to respondents, asking about the practice of internal audit function in financing business sector of Thailand. This is a widely-used method for large-scale data collection in behavioral accounting and auditing research because a representative sample can be collected from the chosen population in a variety of locations at low cost (Kwok and Sharp, 1998). The questions were evaluated by an academic professional in terms of content validity and face validity. After that the data was collected with respect to the questionnaire mailing totality 238 surveys. The response rate of this paper was 20.37% to measure internal audit function.

3.2 Test of Non-Response Bias
Non-response bias can be tested by early and late responses who returned questionnaire surveys about total assets, number of employees and the period of time in operating business. T-test was used to investigate that followed to Armstrong and Overton (1977). The results were not significant between early and late responses. Therefore, it was implied that these received questionnaires show insignificant non-response bias for the analysis in this study.

Missing data was handled with a data imputation method and the results showed there were not significant in the missing data test.

3.3 Variable Measurement
The construct measurement of all variables in the conceptual model are anchored by five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), excluding control variables. In addition, all constructs are reformed for measuring from definition of each constructs and determine the relationship between theoretical framework and previous literature reviews. As the result, the variables measurements of this study are described as follows.

3.3.1 Dependent Variable
Organization success is the ending dependent variable in the conceptual model affected by audit efficiency, audit excellence and audit effectiveness. It comprises five items developed as a new scale adapted with some modification from previous research. It was measured by both discovering and truthfully reporting material error, misrepresentation, or omissions in client’s material financial statement.

3.3.2 Independent Variables
Internal audit function refers to the personnel within a service organization who perform the roles and responsibilities of an internal auditor. These variables includethreecomponents: internal audit competence, internal audit objectivity and internal audit investment. This construct is developed as a new scale including five-item scale. Five scale items are developed to determine how auditors learn and review objectives of clients’ activities. Moreover, the means of which the activities control their performance are also investigated.

Internal audit competence is defined as the process of considering the ability of each individual's ability to perform the job properly. This construct is developed as a new scale including five-item scale. Five scale items are developed to determine how the ability of personnel within the service organizations.

Internal audit objectivity is defined as an honest belief in their work product and that no significant quality compromises are made. This construct is developed as a new scale including five-item scale. Five scale
items are developed to measure how auditors unbiased mental attitude that allows internal auditors to perform engagements.

Internal audit investment defined as internal audit services establish goals to achieve higher value such as skill sets, competencies of the team, facility for a new approach in planning, execution, and reporting of results. This construct is developed as a new scale including five-item scale. Five scale items are developed to measure the ability to pay for monitoring, and auditing characteristics

3.3 Mediating Variables

Risk Reduction is defined as inclusion of opportunities as well as threats within the risk process can be reduced. This construct is developed as a new scale including five-item scale to measure risk management of organizations.

Fraud detection is defined as illegal act characterized by deceit, concealment, or violation of trust. This construct is developed as a new scale including five-item scale to measure how ability of auditors to detect fraud in organizations.

Internal audit excellent in this study is defined as operational on auditing of the auditors to ensure compliance with audit standards, can perform with the professionalism, can use variety of auditing tools, and learn new auditing techniques to improve the quality of auditing. This construct is developed as a new scale including five-item scale to measure good practices for better position of organizations.

3.4 Reliability and Validity

We used Cronbach’s alpha to test the reliability of the measurement. Coefficient alpha indicates the degree of internal consistency among items in questionnaires that should be greater than 0.70 (Nunnally and Berstein, 1994). In addition, convergent validity was tested by the factor loading, each construct should be greater than the 0.40 cut-off and all factors are statistically significant (Nunnally and Berstein, 1994).

Table 1 Result of Measure Validation

<table>
<thead>
<tr>
<th>Variable</th>
<th>Factor Loadings</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audit Competence (IAC)</td>
<td>0.635 - 0.833</td>
<td>0.789</td>
</tr>
<tr>
<td>Internal Audit Objectivity (IAO)</td>
<td>0.670 - 0.828</td>
<td>0.813</td>
</tr>
<tr>
<td>Internal Audit Investment (IAI)</td>
<td>0.717 - 0.874</td>
<td>0.861</td>
</tr>
<tr>
<td>Fraud Detection (FDE)</td>
<td>0.677 - 0.903</td>
<td>0.869</td>
</tr>
<tr>
<td>Risk Reduction (RRE)</td>
<td>0.757 - 0.880</td>
<td>0.878</td>
</tr>
<tr>
<td>Internal Audit Excellence (IAE)</td>
<td>0.741 - 0.912</td>
<td>0.887</td>
</tr>
<tr>
<td>Operational Success (OSU)</td>
<td>0.822 - 0.889</td>
<td>0.909</td>
</tr>
</tbody>
</table>

3.5 Statistical Techniques

Dependent and independent variables in conceptual model are the metric scale. Hence, OLS regression is the appropriate technique to test all hypotheses. From the conceptual model and hypotheses, the following five equation models are formulated:

Equation 1: \[ FDE = \beta_0 + \beta_1 \text{IAC} + \beta_2 \text{IAO} + \beta_3 \text{IAI} + \beta_4 \text{FirmSize} + \beta_5 \text{FirmAge} + \epsilon_1 \]
Equation 2: \[ RRE = \beta_6 + \beta_7 \text{IAC} + \beta_8 \text{IAO} + \beta_9 \text{IAI} + \beta_{10} \text{FDE} + \beta_{11} \text{FirmSize} + \beta_{12} \text{FirmAge} + \epsilon_2 \]
Equation 3: \[ IAE = \beta_{13} + \beta_{14} \text{IAC} + \beta_{15} \text{IAO} + \beta_{16} \text{IAI} + \beta_{17} \text{FDE} + \beta_{18} \text{FirmSize} + \beta_{19} \text{FirmAge} + \epsilon_3 \]
Equation 4: \[ OSU = \beta_{20} + \beta_{21} \text{IAC} + \beta_{22} \text{IAO} + \beta_{23} \text{IAI} + \beta_{24} \text{FirmSize} + \beta_{25} \text{FirmAge} + \epsilon_4 \]
Equation 5: \[ OSU = \beta_{26} + \beta_{27} \text{FDB} + \beta_{28} \text{RRE} + \beta_{29} \text{IAE} + \beta_{30} \text{FirmSize} + \beta_{31} \text{FirmAge} + \epsilon_5 \]

4. Results and Discussion

Table 2 presents descriptive statistics (mean and standard deviation) and correlation matrix for all variables. Correlation coefficients of variables are ranging from 0.724-0.820. With respect to potential problems relating to multicollinearity, variance inflation factors (VIF) were used to test the inter-correlations among independent variables. In this study, the VIFs range from 1.20 to 4.93, well below the cut-off value of 10 (Hair et al., 2010), meaning the independent variables are not correlated with each other. Therefore, there are no substantial multicollinearity problems found in this study.

Table 2 Descriptive Statistics and Correlation Matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>IAC</th>
<th>IAO</th>
<th>IAI</th>
<th>FDE</th>
<th>RRE</th>
<th>IEX</th>
<th>OSU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 3 presents the results of OLS regression analysis for 5 equations. The results indicate the relationship between internal audit function, risk reduction, internal audit excellence, and organization success.

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IAC</strong></td>
<td><strong>FDE</strong> (1)</td>
</tr>
<tr>
<td></td>
<td>0.630***</td>
</tr>
<tr>
<td></td>
<td>(.164)</td>
</tr>
<tr>
<td><strong>IAO</strong></td>
<td>0.227*</td>
</tr>
<tr>
<td></td>
<td>(.125)</td>
</tr>
<tr>
<td><strong>IAI</strong></td>
<td>-0.063</td>
</tr>
<tr>
<td></td>
<td>(.154)</td>
</tr>
<tr>
<td><strong>FDE</strong></td>
<td><strong>.651</strong>***</td>
</tr>
<tr>
<td></td>
<td>(.163)</td>
</tr>
<tr>
<td><strong>RRE</strong></td>
<td>.165</td>
</tr>
<tr>
<td></td>
<td>(.381)</td>
</tr>
<tr>
<td><strong>IAE</strong></td>
<td><strong>1.032</strong>**</td>
</tr>
<tr>
<td></td>
<td>(.222)</td>
</tr>
<tr>
<td><strong>Firm size</strong></td>
<td>.015</td>
</tr>
<tr>
<td></td>
<td>(.129)</td>
</tr>
<tr>
<td><strong>Firm age</strong></td>
<td>.064</td>
</tr>
<tr>
<td></td>
<td>(.112)</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.526</td>
</tr>
<tr>
<td>Maximum VIF</td>
<td>2.679</td>
</tr>
</tbody>
</table>

*p<.1**p<.05, ***p<.01, a Beta coefficients with standard errors in parenthesis.

For the internal audit components, the results present that internal audit competence (IAC) has a significant positive influence on fraud detection ($\beta_{1} = 0.630$, $p<0.01$), but it is not significantly related to risk reduction ($\beta_{2} = 0.082$, $p>0.01$), internal audit excellence ($\beta_{14} = 0.190$, $p>0.01$) and organization success ($\beta_{21} = 0.128$, $p>0.05$). Thus, hypothesis 1b is supported, but hypothesis 1a, 1c and 1d are not supported.

The second component of internal audit function, internal audit objectivity (IAO) has a significant positive influence on fraud detection ($\beta_{2} = 0.227$, $p<0.01$), internal audit excellence ($\beta_{15} = 0.221$, $p<0.05$) and organization success ($\beta_{22} = 0.390$, $p<0.05$), but it is not significantly related to risk reduction ($\beta_{3} = 0.046$, $p>0.05$). Thus, hypothesis 2b, 2c and 2d are supported, but hypotheses 2a is not supported.

Internal audit investment (IAI) has a significant positive influence on internal audit excellence ($\beta_{16} = -0.071$, $p<0.05$) but it is not significant related to fraud detection ($\beta_{3} = 0.063$, $p>0.05$), risk reduction ($\beta_{5} = 0.073$, $p>0.05$), and organization success ($\beta_{23} = 0.222$, $p>0.05$). Thus, hypothesis 3c is supported, but hypothesis 3a, 3b and 3d are not supported.

In summary of internal audit function, the results indicated that two of three components of internal audit function (internal audit competence and internal audit objectivity) have significant positive influence on fraud detection. Consistent with prior research suggested that the ability of each individual to perform the job properly which concerning auditor qualifications and training such as educational background, certification, in-house training program and support for continuing education (Desai et al., 2010 Functional competence is defined as the ability to perform a range of work-based tasks effectively to produce specific outcomes (Cheetham and Chivers, 1998). Corporate governance guidelines and listing rules explicitly recognize the governance role played by audit committees in enhancing the relationships between management, external auditors and internal auditors (Blue Ribbon Committee, 1999; Smith Committee, 2003). As such, audit committees can be viewed as a key safeguard mechanism for internal auditors in managing their professional objectivity. In contrast, internal audit investment does not influence on fraud detection, risk reduction and
internal audit excellence. It may be due to many factors related to internal audit budgets such as company size, leverage, financial, service, operating cash flows and audit committee Carcello et al. (2005).

The effect of fraud detection on risk reduction and internal audit excellence. The results found that fraud detection is significant positive influence on risk reduction and audit excellence ($\beta_{10} = 0.651$, $p<0.01$ and $\beta_{17} = 0.633$, $p<0.01$). Thus, hypotheses 4a and 4b are supported. In addition, audit excellence has a significant positive influence on organization success ($\beta_{29} = 1.032$, $p<0.01$), but fraud detection and risk reduction are not significantly related to organization success ($\beta_{27} = 0.149$, $p>0.05$; $\beta_{28} = 0.165$, $p>0.05$). Therefore, hypotheses 7 is supported, but hypotheses 5 and 6 are not supported. The finding reveals that fraud detection is a direct influence to risk detection and internal audit excellence. In addition, the internal audit functions play as an indirect influence on the organization success via the mediating influences, particularly internal audit excellence. Consistent with prior research indicated that the organizational value increase refers to the ability of the organization to provide stability about manage service audit, and to reinvent and improve performance in both the short and long term to achieve the strategies objectives and goals (Lenz and Sarens, 2012; Dobni et al., 2000).

5. Contributions
5.1 Theoretical Contribution
This research contributes several theoretical implications. Firstly, this study expands to the literature of internal audit function. Secondly, this study confirms the previous research about the link between the internal audit function and organization success. Finally, this study extends the holistic view of internal audit function that attempts to examine the relationship of internal audit function and organization success.

5.2 Managerial Contribution
This research provides the first evidence that board of directors and executive committees use novel constructs of internal audit function that could be significant in the internal audit competence, internal audit excellent, internal audit objectivity and fraud detection. It can advance the level of organization success.

6. Conclusion
The purpose of this study is to examine the effect of internal audit function on organization success via the mediating influences which include risk reduction, fraud detection, and internal audit excellence. The results indicated that two components of internal audit function, specially, internal audit competence has significant positive influence on fraud detection, risk reduction and internal audit excellence. The results found that internal audit excellence has significant positive influence on organization success.

This study has some limitation. The limited number of respondents was an obstacle to generalization of the results, thereby necessitating careful interpretation of findings. According to the none of in-depth interview, some constructs do not have significant influences. Future research may also investigate other variables to extend the relationships between internal audit competence, internal audit excellence, fraud detection, and risk management planning that affect organization success.

References
The Business and Management Review, Volume 7 Number 5


