Quality of Accounting Information and Internal Audit Characteristics in Nigeria

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The basic goal of accounting is to provide quality accounting information that will aid reliable decision-making. The quality level of this accounting information comes from the company’s governance practices, thereby emphasizing the importance of corporate governance in companies. Recently, following the financial crises resulting in accounting scandals, attention has been moving towards internal audit function as an important factor in the structure of corporate governance. This paper therefore examined the extent of the relationship between internal audit function and the quality of accounting information of companies. The study adopted the survey research design. The research instrument employed was questionnaire which was administered to internal auditors of the “Big Four”. Linear regression analysis was employed in the analysis of the data collected with the use of Statistical Packages for Social Sciences (SPSS). The results revealed that there is a significant relationship between the internal audit characteristics and the quality of accounting information. It was recommended that in order to provide credibility to the financial statement, there should be a law in place mandating attachment of internal auditors report to the financial statement.

Keywords: accounting quality, accounting report, corporate governance, fraud, internal auditing

Introduction

Recently, there has been considerable interest in the corporate governance practices of modern corporations, particularly since the high profile collapse of a number of large U.S. firms such as Enron Corporation and WorldCom (Adedipe, 2004). These high profile collapses which involved accounting fraud unfortunately had serious devastating effect on stakeholders in terms of losses in their investment (Ojeka, Iyoha, & Obigbemi, 2014). These events also led to loss of hundreds of jobs most especially in the manufacturing sector as well as a drop in the prices of shares of most companies listed on the floor of Nigerian Stock Exchange (Ojeka et al., 2014). This wave of accounting scandals that occurred both in the international and local financial community has raised many criticisms about the financial reporting quality (Agrawal & Chadha, 2005), such that the trust which prior to now stakeholders particularly investors had on the credibility and
quality of financial report presented by the management of companies could no longer be sustained as such reports were regarded as misleading and false. As a result of these various financial scandals, there is the need for the accounting profession to regain investors’ confidence in financial reporting quality and the need for a quality financial report to meet expectations of current and potential investors. This has thereby given rise at the international level to the U.S. federal government passing the Sarbanes-Oxley Act in 2002 intending to restore public confidence in corporate governance. Likewise, in a bid to also achieve this same objective of restoring confidence in investors, the Nigerian Code of Corporate Governance was overhauled by the Securities and Exchange Commission in 2011 (Ojeka et al., 2014).

Generally, the concept of corporate governance relates to the relationship between a company’s management, board of directors, shareholders and other stakeholders. Good corporate governance entails efficient management of resources and provision of responsible leadership; it requires the provision of timely and quality information and the enforcement of sanction for breaches in ethical standard, regulations and code of conduct (Ogbeche & Koufopoulos, 2007). Suffice it to say that the whole essence of corporate governance is to ensure transparency, investor protection, full disclosure of executive action and corporate activities to stakeholders, assurance of performance-related executive compensation and full disclosure of executive compensation (Myers, 1977). The corporate governance system comprises four cornerstones which are: management, external auditor, audit committee, and internal auditor (IA) (Gramling, Maletta, Schneider, & Church, 2004; Prawitt, Smith, & Wood, 2009). In recent years and following the financial crises, the focus of attention has been moving towards internal audit function as an important factor in the structure of corporate governance (Al-Shetwi, Ramadili, Chowdury, & Sori, 2011; Coram, Ferguson, & Moroney, 2008). The role of the internal audit function includes: monitoring, assessing and analyzing organizational risk and controls; reviewing and confirming information and compliance with policies, procedures and controls.

The main interest of this paper, therefore, is on governance mechanism that can influence the quality of financial accounting report/information with particular interest on the internal audit function. The quality of accounting information is decomposed into three characteristics which are reliability, relevance, and understandability. This paper is divided into five sections: Section 1 is the introduction; Section 2 is the review of relevant literatures; Section 3 is the methodology adopted; Section 4 is the analysis and interpretation of data collected with the use of statistical techniques while Section 5 concludes the paper and includes recommendation.

**Literature Review**

**Concept of Internal Audit and Financial Accounting Information**

In recent years and following the financial crises, the focus of attention has been moving towards internal audit function as an important factor in the structure of corporate governance (Al-Shetwi et al., 2011; Coram et al., 2008). Internal auditing is a catalyst for improving an organization’s governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes. According to Institute of Internal Auditors (IIA), the objective of internal auditing is:

An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (IIA, 2008, p. 2)
Unegbu and Obi (2007) defined internal audit as part of the internal control system established by management of an organization for the purpose of ensuring strict adherence to stated work procedures, as well as serve as an aid to management. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. In the words of Unegbu and Obi (2007), internal audit measures, analyzes and evaluates the efficiency and effectiveness of other controls established by management in order to bring about smooth administration, control cost minimization, and ensure capacity utilization and maximum benefit derivation. Vos (1987) opined that the objective of internal auditor is to evaluate effectiveness of financial and operating control, confirm compliance with company’s policies and procedures, protect assets, and verify the accuracy of internal and external reports. The responsibility of the internal auditor is to reveal how well the accounting system works and also evaluate the effectiveness and efficiency of this accounting system in the organization (Tracey, 1994).

IASB (2010) stated that the main objective of financial reporting is to provide information that is useful to investors, creditors, and others in making investment, credit, and similar resource allocation decisions. There are two main qualitative characteristics of financial accounting information: relevance and faithful representation. Information is said to be relevant when a change in the information would affect the decisions of users of such information while faithful representation implies that information reflects the real world economic phenomena that it purports to represent. For financial information to be of good quality, it must be relevant, reliable, timely, understandable, faithful representation, comparable and verifiable.

![Figure 1. Characteristics of financial statement used in making economic decision. Source: FASB (1980).](image-url)
Internal Audit Function and Quality of Accounting Information

Internal auditing activity as it relates to corporate governance has in the past been generally informal, accomplished primarily through participation in meetings and discussions with members of the board of directors but today, a primary focus area of internal auditing as it relates to corporate governance is helping the audit committee of the board of directors perform its responsibilities effectively. The internal audit function is an important function within an organization that has been shown to add value (Carey, Simnett, & Tanewski, 2000; Goodwin-Stewart & Kent, 2006; Carcello, Hermanson, & Raghunandan, 2005) and reduce detected errors by external auditors (Wallace & Kreutzfeldt, 1991) and it is considered an important governance tool to protect corporations from internal criminal behaviour (Nestor, 2004) thereby improving the quality of the financial accounting information of companies.

Over the years, researches have shown that internal auditing function has a significant impact on financial reporting quality especially in the areas of preventing and detecting fraud (Church, McMillan, & Schneider, 2001; Coram et al., 2008). Internal auditing plays a very important role in corporate financial reporting; one of such areas where they play this important role is in the area of prevention and detection of fraudulent financial reporting. Investors with easy access to the internal audit function reports have greater confidence in the reports than those without access (Archambeault, DeZoort, & Holt, 2008). Similarly, evidence has shown that internal audit function plays an important role in completing the financial statement audit (Zain, Subramaniam, & Stewart, 2006) imploring that internal audit function has an effective role in improving the audit quality and in turn financial reporting quality (Al-Shetwi et al., 2011).

A study carried out by Al-Shetwi et al. (2011) showed that there is no significant contribution between internal audit function and financial accounting quality. The findings from this research study showed that the weak/no association between internal audit function and quality of accounting information might be due to the combined factors of an inadequate system as well as poor corporate governance. Another research study carried out by Coram et al. (2008) showed that organizations with an internal audit function are more likely than those without such functions to detect and self-report fraud. The findings of the study suggest that an internal audit function adds value to an organization through an improvement of the control and monitoring environment to enable the detection and self-report fraud thereby bringing about an increase in the accuracy of the accounting information disclosed. Consistent with the findings of Coram et al. (2008) is Dangana, Yancy, and Hassan (n.d), who carried out a research on audit characteristics and financial reporting quality. Audit characteristics were measured with auditor’s independence and auditor’s compensation/fee; while quality of financial reporting was estimated by earnings quality. The result of the study showed that auditor’s compensation and independence all have an impact on earnings quality which is quality of financial reporting.

As a result of this inconsistency in the opinions of various authors with respect to the extent to the relationship between internal audit function and quality of accounting information, as well as going by the inadequacy of substantial literature in this area, the underlisted question is proposed for an empirical investigation:

H1: There is a significant relationship between internal audit function and quality of accounting information.
Internal Audit Characteristics and Quality of Accounting Information

Al-Shetwi et al. (2011) argued that the impact of internal audit function on financial reporting quality is a function of three factors, namely: the proficiency/competence of internal audit staff, internal auditors’ independence, and internal auditors’ work performance. Ebrahim, Abdullah, and Faudziah (2014) examined four factors of internal audit function which are: qualification of the audit department, size of the audit department, qualifications of the chief audit executive and experience of the audit department. In this study, internal audit comprises two factors, namely: competence and independence.

Competence of the Internal Auditor and Quality of Accounting Information

The first characteristic of internal auditor to be examined is competence and its relationship with quality of accounting information. Arens, Elder, and Beasley (2012) opined that competence is the knowledge and skills necessary to accomplish tasks that define an individual’s job. Furthermore, competence refers to the ability of an individual to perform a job or task properly with the application of a set of defined knowledge, skills, and behavior.

In a study carried out by Prawitt et al. (2009), the relationship between internal audit quality (internal auditor’s experience and internal auditor’s qualification) and earnings management was examined. The study employed ordinary least square regression to test the relationship between the independent and dependent variables. The result revealed that staffs who are presumed competent can easily identify internal control weaknesses, and being employees of the company, they know more about the structure and system in the company while in another study by DeZoort (1998), internal audit staff who are inexperienced and non-knowledgeable may find it difficult to detect areas of fraud in the internal control process which may lead to the production and publication of fraudulent financial report, thereby bringing about poor quality of financial accounting information which may mislead stakeholders in the cause of making decisions. Further, an internal auditor is more familiar with the firm’s structure and accounting information system than an external auditor being a member of staff of the organization, and this enhances an internal auditor’s experience regarding the potential areas of fraud thereby emphasizing the role of the internal auditor in the production of quality financial accounting information.

Similarly, Novyarni (2014) examined the influence of internal auditor competence and independence on the quality of financial reporting by municipal/provincial government. The study was conducted and data were elicited through the administration of questionnaire to the internal auditors of municipal/provincial governments. The result of the study showed that the competence of the internal auditor primarily affects the quality of financial reporting on city government and the provincial government. There are insufficient studies that examine the relationship between the quality of accounting information and competence of the internal auditor. As such, this current study seeks to examine the extent of the relationship between the internal auditor’s competence and the quality of financial reporting. Therefore, the underlisted hypothesis was formulated to be tested:

H2: There is a significant relationship between the competence of internal auditors and quality of accounting information.

Independence of Internal Auditors and Quality of Accounting Information

Independence is a mental attitude that can neither be influenced nor controlled and does not involve reliance on the other party (Mulyadi, 2008). A study carried out by Payamta (2006) revealed that internal auditor’s independence does affect the quality of financial reporting. Auditor independence is commonly
referred to as the cornerstone of the auditing profession since it is the foundation of the public’s trust in the accounting profession. Unfortunately, since the emergence of the various high profile cases of fraud, there has been a negative perception of the auditors’ independence. Independence on the part of internal auditors is such that should enable staff of the internal audit to report all material cases they detect without any fear even if they disclose the faults of management itself.

Al-Shetwi et al. (2011) examined the impact of internal audit function on financial reporting quality of all Saudi companies listed in the Saudi Stock Exchange in 2009, excluding banks. Secondary and primary information was gathered through a matched survey and interview of both internal and external auditors. The findings showed that there is a weak relationship between the internal auditor’s independence and quality of accounting information. In another study conducted by Adebayo (2011) on the impact of auditor’s independence on the credibility of financial statement in Nigeria, the study concluded based on the findings that there is a positive relationship between independence of an auditor and the credibility of financial statement. The data used for the study were collected from both primary and secondary sources. These data were equally analyzed using tables and simple percentages while the hypotheses generated were tested with the use of chi-square. The result of the test showed that auditor’s independence affects the credibility of financial statement. There is no sufficient studies/literature with respect to the relationship between the internal auditor’s independence and quality of accounting information. This therefore served as a basis for formulating the underlisted hypothesis:

H3: There is a significant relationship between the independence of the internal auditors and quality of accounting information.

Agency Theory

The theory adopted for the purpose of this research study is the agency theory. Agency theory provides the framework for the evaluation of the relationship between the various parties in an organization. An agency relationship arises when one or more principals engage another person as their agent to perform their service on their behalf. In order to perform this service, there must be delegation of some decision-making authority to the agent. Such delegation would require the agent placing trust in the principal. But as a result of the breach in trust placed in management, there is the need for an internal auditor who would checkmate and report to the board, the activities of management. This therefore introduces the concept of internal auditors as agents of principals. The internal auditor reports to the board of directors or its audit committee and is charged with monitoring the activities of the organization to ensure compliance with procedures and to likewise ensure that management is indeed acting in accordance with the laid down policies established by the board of directors.

Research Methodology

The survey research method was employed in this study. The choice for the survey method lies in the fact that it focuses on obtaining subjective opinion of respondents and aims at drawing an accurate assessment of the entire population by studying samples derived from the population usually in the form of questionnaire (Osuala, 2005). The primary data were used as a source of data. The primary data were obtained from the group of respondents through a properly constructed questionnaire. The questionnaire was constructed using a 5-point Likert scale. The questionnaire was divided into four sections. Sections A, B, and C were on questions pertaining to the three hypotheses while Section D comprises personal information of the respondents.
For the purpose of this study, the target audience is the internal auditors. A total of 60 copies of the questionnaire were administered to internal auditors of the “Big Four” which are Deloitte, KPMG, PricewaterhouseCoopers (PwC), and Ernst and Young (EY). The rationale behind this is as a result of the fact that they (Big Four) are representative of the accounting firms in Nigeria; their clients are spread across different sectors of the Nigerian economy; they control the market and have a functional internal audit department with highly skilled and well-trained professional internal auditors. A total of 51 questionnaires were received from the various respondents.

The data collected were analysed with the use of both descriptive and inferential statistics. The hypotheses formulated for this study were tested with the use of statistical parametric tools known as regression analysis. This rationale behind using regression analysis is to enable the researcher to determine the extent of the relationship between the independent variable (internal audit characteristics) and dependent variable (quality of accounting information).

**Hypotheses**

The hypotheses are listed as follows:

RH₁: There is a significant relationship between the internal audit function and the quality of accounting information.

RH₂: There is a significant relationship between the competence of the internal auditor and the quality of accounting information.

RH₃: There is a significant relationship between the independence of the internal auditor and the quality of accounting information.

**Model Specification**

\[
Y = f(X)
\]

\[
Y = f(x_1, x_2, x_3)
\]

\[
Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \mu
\]

where:

- \( X \) = Independent variable (internal audit characteristics);
- \( x_1 \) = Independence;
- \( x_2 \) = Competence;
- \( x_3 \) = Reliability;
- \( Y \) = Dependent variable (quality of accounting information);
- \( y_1 \) = Timeliness/Relevance;
- \( y_2 \) = Reliability;
- \( y_3 \) = Understandability;
- \( \beta_0 \) = Intercept;
- \( \mu \) = Error term/Stochastic variable.

**Results and Discussion**

This section contains an analysis of the hypotheses tested using regression analysis.

Objective 1: To determine the extent of the relationship that exists between the internal audit function and the quality of accounting information.
Table 1

**Regression Analysis**

<table>
<thead>
<tr>
<th>Model</th>
<th>$R$</th>
<th>$R$ square</th>
<th>Adjusted $R$ square</th>
<th>Std. error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.279&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.078</td>
<td>0.059</td>
<td>0.842</td>
</tr>
</tbody>
</table>

### Model summary

**Coefficients<sup>a</sup>**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Beta</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.998</td>
<td>1.118</td>
</tr>
<tr>
<td>Internal audit function</td>
<td>0.112</td>
<td>0.279</td>
</tr>
</tbody>
</table>

**ANOVA<sup>b</sup>**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>Df</th>
<th>Mean square</th>
<th>$F$</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1</td>
<td>2.925</td>
<td>4.123</td>
<td>0.048&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>49</td>
<td>0.709</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>37.686</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note.**<sup>a</sup> Predictors: (Constant), internal audit function. <sup>b</sup> Dependent variable: There is a significant relationship between the internal audit function and the quality of accounting information.

Table 1 depicts an assessment of statistical significance of the result. This is a test of the null hypothesis to enable the determination of whether or not the null hypothesis should be accepted or rejected. From the coefficient table, the significance value in this study is 0.048, which is lower than the cut-off of $p < 0.05$. This therefore signifies that there is a significant relationship between the internal audit function and the quality of accounting information. From Table 1, the $R$ value is 0.279, when expressed in percentage terms; it shows that this model explains 27.9% of the variance in the dependent variable being quality of accounting. That is to say, the remaining 72.1% variation in the dependent variable can be explained outside the independent variable by other factors.

Objective 2: To ascertain the extent of the relationship that exists between the internal auditors’ competence and the quality of accounting information.

Table 2

**Regression Analysis**

<table>
<thead>
<tr>
<th>Model</th>
<th>$R$</th>
<th>$R$ square</th>
<th>Adjusted $R$ square</th>
<th>Std. error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.049&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.002</td>
<td>-0.018</td>
<td>1.128</td>
</tr>
</tbody>
</table>

### Model summary

**Coefficients<sup>a</sup>**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Beta</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>4.326</td>
<td>1.244</td>
</tr>
<tr>
<td>Competence</td>
<td>-0.022</td>
<td>-0.049</td>
</tr>
</tbody>
</table>

**ANOVA<sup>b</sup>**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>Df</th>
<th>Mean square</th>
<th>$F$</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
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<td>0.151</td>
<td>0.118</td>
<td>0.732&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>49</td>
<td>1.273</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>62.510</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note.**<sup>a</sup> Predictors: (Constant), competence. <sup>b</sup> Dependent variable: There is a relationship between the internal auditor’s competence and quality of accounting information.
Table 2 depicts an assessment of the statistical significance of the result. This is a test of the null hypothesis to enable the determination of whether or not the null hypothesis should be accepted or rejected. The significance value in this study is 0.732, thereby showing that there is no significant relationship between the internal auditors’ competence and the quality of accounting information. From Table 1, the $R$ value is 0.049, when expressed in percentage terms; it shows that this model explains 4.9% of the variance in the dependent variable being quality of accounting. That is to say, the remaining 95.1% variation in the dependent variable can be explained outside the independent variable by other factors.

Objective 3: To investigate the extent of the relationship between the internal auditors’ independence and quality of accounting information.

Table 3

Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>$R$ square</th>
<th>Adjusted $R$ square</th>
<th>Std. error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.004</td>
<td>-0.017</td>
<td>1.005</td>
</tr>
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ANOVA

<table>
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<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>Df</th>
<th>Mean square</th>
<th>$F$</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.177</td>
<td>1</td>
<td>0.177</td>
<td>0.175</td>
<td>0.678*</td>
</tr>
<tr>
<td>Residual</td>
<td>49.510</td>
<td>49</td>
<td>1.010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>49.686</td>
<td>50</td>
<td></td>
<td></td>
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</tbody>
</table>

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>4.528</td>
</tr>
<tr>
<td></td>
<td>Independence</td>
<td>-0.028</td>
</tr>
</tbody>
</table>

Note: * Predictors: (Constant), independence. * Dependent variable: There is a significant relationship between the independence of the internal auditor and the quality of accounting information.

Table 3 depicts an assessment of the statistical significance of the result. This is a test of the null hypothesis to enable the determination of whether or not the null hypothesis should be accepted or rejected. The significance value in this study is 0.678, meaning that the model in this table is not statistically significant since the value in the model is higher than the cut-off of $p < 0.05$. This therefore signifies that there is no significant relationship between the internal auditors’ independence and the quality of accounting information. From Table 3, the $R$ value is 0.060, when expressed in percentage terms; it shows that this model explains 6.0% of the variance in the dependent variable being quality of accounting. That is to say, the remaining 94.0% variation in the dependent variable can be explained outside the independent variable by other factors.

Discussion of Findings

The main aim of this study is to determine the extent of the relationship between the internal audit characteristics and the quality of accounting information. This study engaged three objectives which are: To determine the extent of the relationship between the internal audit function and the quality of accounting information; to ascertain the extent of the relationship between the internal auditor’s competence and quality of accounting information; and to investigate the extent of the relationship between internal auditor’s independence and the quality of accounting information.
Significant relationship between the internal audit function and the quality of accounting information. Hypothesis one states that there is a significant relationship between the internal audit function and the quality of accounting information. To test this, regression analysis was run and as a result, the null hypothesis was rejected, while the alternate hypothesis which states that there is a relationship between the internal audit function and quality of accounting information was accepted. Although there is a relationship between the two variables, the extent of the relationship is not very strong or significant. This empirical finding is consistent with the result of a research carried out by Rahmatika (2014) where it was revealed that internal audit has a positive effect on the quality of financial reporting.

Significant relationship between the internal auditors’ competence and the quality of accounting information. Hypothesis two states that “there is a significant relationship between the internal auditors’ competence level and the quality of accounting information”. To test this, regression analysis was run and as a result, the null hypothesis was rejected, while the alternate hypothesis which states that there is a significant relationship between the internal auditor’s competence level and quality of accounting information was accepted. This empirical finding is consistent with the result of a research carried out by Al-Shetwi et al. (2011) which revealed that internal auditors’ competence does not affect the quality of financial reporting on city government and the provincial government.

Significant relationship between the internal auditors’ independence and the quality of accounting information. Hypothesis three states that there is a significant relationship between the internal auditors’ independence and the quality of accounting information. To test this, regression analysis was run and as a result, the null hypothesis was accepted, while the alternate hypothesis which states that there is a significant relationship between the internal auditor’s independence and quality of accounting information was rejected. This empirical finding is consistent with the result of a research carried out by Al-Shetwi et al. (2011) who examined the impact of internal audit function on financial reporting quality of all Saudi companies listed in the Saudi Stock Exchange in 2009, excluding banks whose findings showed that there is a weak relationship between the internal auditor’s independence and quality of accounting information.

Conclusion and Recommendations

Accounting, as the language of today’s corporate governance structure, mainly reflects the effects and mechanism of corporate governance. The basic goal of accounting is to provide quality accounting information that would assist users of accounting information in making effective decisions. The quality level of this accounting information comes from the company’s governance practices, thereby emphasizing the importance of corporate governance in companies. Optimal decision-making is therefore to a very large extent dependent on the quality of the financial accounting information/report presented to stakeholders at all levels. The role of the internal audit function as one of the corporate governance mechanisms has become more prominent. When examined singularly, internal auditor’s competence and independence do not contribute to the quality of accounting information, but when looked at collectively, there is a relationship between internal audit characteristics and quality of accounting information. This therefore implies that there are other forms of internal audit characteristics that affect the quality of accounting information. The underlisted recommendations were made:

(1) The office of the internal audit should be independent of management and the chief executive officer. If it is possible, the internal audit should not be directly under the chief executive officer/management;
(2) To further provide assurance to the credibility of accounting information, internal auditors should be allowed by law to have a column in the financial statement where they can put together their report on the position and performance of the organization;

(3) Accounting bodies and accounting regulatory authorities should come up with ways to improve independence and competence of the internal auditors;

(4) Emphasis should be further placed on other characteristics of internal audit as it relates to quality of accounting information.

References


