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MEDIATING EFFECT OF INTERNAL AUDITORS' ETHICAL CONDUCT ON THE RELATIONSHIP BETWEEN USAGE OF INFORMATION TECHNOLOGY, MANAGEMENT SUPPORT FOR INTERNAL AUDIT DEPARTMENT, AND INTERNAL AUDIT EFFECTIVENESS: A CONCEPTUAL FRAMEWORK

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Abstract

Low level of internal audit effectiveness is practically increasing in the Nigerian ministries, department, and agencies. In proffering solution to this lingering issue, this present study proposed a framework to examine the degree of effectiveness of internal audit functions in Kano state, Nigeria MDAs. The proposed framework is motivated by agency theory with the mediating effect of auditor's ethical conduct. This present study extends the already extant body of knowledge in the area of internal audit effectiveness by expanding agency theory with the mediating effect of auditor's ethical conduct. Also, this study has implication to support management, shareholders and other policy makers in addressing ineffectiveness and corrupt practices in the Nigerian MDAs. If this framework is authenticated, it would provide more evocative insight on the extends of internal audit effectiveness in Kano Nigerian MDAs, the legislators and government official would benefit greatly from this study if eventually concluded as it would assist MDAs to enhance internal audit effectiveness and curb corruption. In the subsequent studies the proposed framework will be empirically tested through data collection and analysis of relevant data.

Keywords: Auditor's Ethical Conduct; Internal Audit Effectiveness; Usage of Information Technology; Internal Audit

1. Introduction

Since financial instability and crises have led to a rise in fraud scandals, public sector firms must prioritize using the right internal audit procedures (Vadasi et al., 2020). The internal audit is a crucial component of contemporary business because, by using a methodical and disciplined approach, it helps an organization achieve its goals and objectives (El-Sayed Ebaid, 2011). The effectiveness of internal auditing

can be enhanced by the caliber of internal auditing, the proficiency of the internal audit team, and the backing of management for internal auditing (Drogalas et al., 2015). Within this framework, the internal auditor is in charge of identifying financial irregularities, particularly by using the auditing standards to improve internal audit effectiveness (Spink et al., 2019).

There are numerous reasons why the effectiveness of internal auditing is thought to be a relevant area of research. First off, because internal audit effectiveness (IAE) depends heavily on the substantial contribution of top management, the responsibilities of organizational internal auditors are crucial to improving the transparency of financial reporting. As a result, internal auditor expectations have grown significantly (Eulerich et al., 2021). Second, according to Ghaleb et al. (2020), internal audit studies are seeing a rise in interest in IAE as a modern issue. Thirdly, much more research should be done, particularly in developing nations, according to the majority of IAE findings examined worldwide (Abdolmohammadi & Sarens, 2011; Alzeban & Sawan, 2015; Endaya & Hanefah, 2016; Joshi, 2021; Roussy et al., 2020). Fourth, academics cannot agree on the constructs that directly influence internal auditor effectiveness or the optimal internal audit framework that leads to high-quality financial reporting (Turetken et al., 2020). The internal audit function strives to support organizations in achieving the goal of reliable financial reporting by acting as a deterrent to critical financial reporting through enhanced IAE and auditing the activities of top management (Prawitt et al., 2011).

This study aims to investigate recent developments concerning IAE. As suggested by the Institute of Internal Auditors (IIA) and International Standards for Professional Practice of internal auditors (ISPPA), there is a general belief that internal audit is an integral component of control mechanisms with determining factors (Gramling et al., 2004). Notwithstanding the recent growth in IAE research, there seem not appear to be many scholarly or professional studies that offer a clear picture of the major environmental and contextual determinants that could support or undermine the efficient operation of the internal audit function.

Within the IIA (2010) internal auditing was defined as an independent, objective assurance and consulting activity intended to validate an organization's operations and add value. The efficiency of internal audit, control, and governance systems is then assessed and improved using a methodical, disciplined methodology, which aids a business in achieving its goals.

Jurchescu and Lesconi-Frumusanu (2010) internal audit as an impartial and independent functional operation that advises upper management on how to improve the efficient administration of public sector revenue and expenses within the public sector organization. This is made possible by methodical and systematic techniques that develop and strengthen efficient internal control systems and the efficacy of internal audit. The aforementioned definition focuses on internal auditors' responsible use of resources, income, and expenses in the public sector, as well as their improvement of efficient internal auditing, internal control systems through usage of information technology, and administrative procedures.

Natchkova (2019) asserts that incompetent internal auditors are more likely to provide audit reports that are out of proportion. This is a result of their poor internal audit function execution. A number of distinct conducts that directly compromise the quality of audit processes are referred to as ineffective internal audit functions. These behaviors include accepting inadequate client explanations, neglecting to investigate accounting principles and standards, performing only superficial document reviews, and reducing the work to a level below what the internal auditor considers reasonable (Gansberghe & Nordin, 2005).

Based on reviews of relevant literature and an analysis of the benefits and drawbacks of the stated measures of internal audit effectiveness used by previous researchers (Gaosong & Leping, 2021), this study aims to use measurements based on chief internal auditors, deputy chief internal auditors, and senior internal auditors' perceptions of the quality of internal audit functions. Aggregating the answers to the questions on the many facets of internal audit operations in Kano state MDAs is the main goal of the measures.

One might approach the idea of ethics from a variety of angles. As a collaborative agreement between the organization and the internal auditor, ethics can be understood (Seay, 2015). In order to guarantee that internal audit functions are carried out effectively, the ethics of internal auditors are put into practice to influence the decisions made by those who utilize accounting reports, such as lawmakers, lenders, employees, suppliers, potential investors, shareholders, government officials, and customers (Diamastuti, 2017). The proposed strategic simple mediation model will be introduced in this study and either improved upon or validated. Though it appears straightforward and prioritizes particular elements that decision makers should take into account, this may have a more intricate pattern than earlier research on the integration of mediating effects. The methods

of tackling this threat have not received much attention in the literature, but the Partial Least Square (PLS) and Structural Equation Model (SEM) methodological guidelines demonstrate that it is feasible and researchable to investigate this straightforward model with the mediating role of an auditor's ethical behavior. The "key driver" architecture can be understood thanks to PLS-SEM(Hair et al., 2006). Additionally, utilizing the literature's backing, this study aims to apply auditor's ethics (Abdelahi et al., 2020; Zwed & Al-Rubaye, 2019). As a mediator or intervenor between internal audit effectiveness, it is important to remember that determining the primary driver is essential and ought to be carried out in order to direct policymakers. When planning training programs to mold the ethical conduct of their members, professional bodies ought to take this into account.

The development of internal auditors' ethical behavior (IAEC) among practitioners, internal auditors, and professional bodies via professional ethics-based training ought to be a strategic concern for professional bodies and policymakers alike. Their conduct and behaviors will be shaped toward moral thinking as a result of this. When this is accomplished, internal auditing will be incredibly successful. The inclusion of the mediator "auditors' ethical conduct" is crucial because it helps policymakers and auditing professional associations understand that, even though there are many factors that influence IAE, internal auditors' ethical conduct is the main variable that is identified through rigorous mediation analyses as the main player in the application of this analytical techniques. This can be done by providing on-the-job training and developing a professional code of ethics to direct their enforcement of ethical conduct.

In keeping with the findings of Hair et al. (2013), Hair et al.(2017a) and Hair et al. (2010) that recommend indispensable consistencies, it is appropriate to rely on references to Baron and Kenny's (1986) highly recommended guidelines for the formulation of strategic work as a point of reference. Viewing the relevant analysis in order to understand the aspects that will determine a policy's direction when institutions are willing to establish an efficient internal audit function is the goal.

Several scholars have examined the connection between the moral conduct of internal auditors and the efficiency of internal audit. Nonetheless, Nour and Tanbour (2023) found a correlation between the two variables when they looked at how IAEC affected internal auditors' ability to carry out internal audit functions effectively. Their findings were grounded in the agency theory, which holds that auditors make choices according to the utility maximization principle that is, that

the optimum course of action is to maintain the stakeholders by providing an audit report that is fully transparent. These results show that IAEC would have a tendency to do fewer comprehensive audit tests, which would make it harder to identify fraud.

Hypotheses Development

In order to formulate hypotheses, an empirical literature relevant to the variables under investigation was explored in this section.

Usage of Information Technology and Internal Audit Effectiveness

The process of obtaining and evaluating evidence to determine whether a computer system is ready to support data encryption, asset protection, enable the successful achievement of organizational goals, and make prudent use of resources is known as information technology (Inf tech). Previous research has linked the use of IAE and UIT (Ahmi, 2016; Alkebsi et al., 2014; Azizah & Farid, 2021; Chair et al., 2004; Nazri et al., 2019).

Many firms have faced challenges in staying competitive as business and auditing processes quickly change due to the advancements in UIT (Fitrawansyah, 2015). According to (Ali et al., 2018), there is proof that the UIT influences IAE. Research indicates that the more appropriate and timelier the information is to help the internal auditors make choices more quickly, the more effective the internal audit will be (Manoharan & Melitski, 2019). Given the critical role internal auditors play in all organizations, this study looks at the factors that influence internal audit effectiveness (IAE).

Previous studies Alkebsi and Aziz (2017), Almahuzi (2020), Popoola (2017), and Santosa et al. (2016) have evaluated and suggested that auditors use information technology, noting that it has a good impact on the IAE. They have also emphasized the importance of the UIT. However, to portray the importance of UIT in internal audit department (IAD), previous studies shows UIT as a good driver of IAE (Abdullah, 2014; Arena, 2013; Halbouni et al., 2016; Popoola, 2017).

Study on inf tech adoption by internal and external auditors in the UK was done by Alkebsi and Aziz (2017) and Shahimi et al. (2016) their results demonstrated that auditors' free will to employ system-based technology is motivated by corporate pressure, performance goals, and technical installation help. Nonetheless, while a number of studies concentrate on computer-based technology adoption, usage, and

continuous auditing, very few examine the variables influencing UIT and whether or not it improves internal audit functions (Almahuzi, 2020; Alqaraleh et al., 2022; Arnold et al., 2012). Moreover, the significance of UIT in the internal audit department (IAD) is demonstrated by prior research, which indicates that UIT is a strong IAE driver (Abdullah, 2014; Arena, 2013; Halbouni et al., 2016; Popoola, 2017).

Therefore, usage information technology is needed by the internal audit department to improve internal audit functions.

H₁: There is significant relationship between usage of information tech and IAE.

Management Support for Internal Audit Department and IAE

According to Alzeban and Gwilliam (2014), Cohen and Sayag (2010), Dellai (2015), Salehi (2016), and Onay (2021) affirm that top management support is a decisive element that influences and influences IAE. The most significant determinant of IAE is managerial support for IAD, according to study by Albrecht et al. (1988) undertaken in the American private sector. Once more, Ahmad et al. (2009)'s research from Malaysia showed that managerial support plays a role in how well IAE is implemented. Research conducted in Nigeria confirms that MSIAD is a factor in IAE (Bello et al., 2017; Ethel et al., 2021).

According to earlier research, senior management support is crucial for the internal audit function to succeed. Ahmad et al. (2009) contended that, contingent on the quality of internal audit personnel, top management support was the second most significant factor influencing internal audit effectiveness (IAE) in the public sector. They confirmed that the IAD would probably implement its recommendations and be properly resourced in terms of internal audit personnel and budget if upper management provided sufficient support.

According to research conducted in the Ethiopian public sector by Mihret and Yismaw (2007), opine that a lack of support from top management is likely to undermine the internal audit function by causing top management to view the activity with disdain, as they perceive it to be irrelevant.

H₂: There is significant relationship between management support for IAD and IAE.

The conceptual model may be necessary in order to understand the level of IAE in Kano state MDAs. The conceptual framework of this study comprises the use of information technology, management support for IAD and IAE, and internal

auditors' ethical conduct as a mediating variable to understand quality in the internal audit function of the MDAs. The framework can be presented in the Figure 1 below.

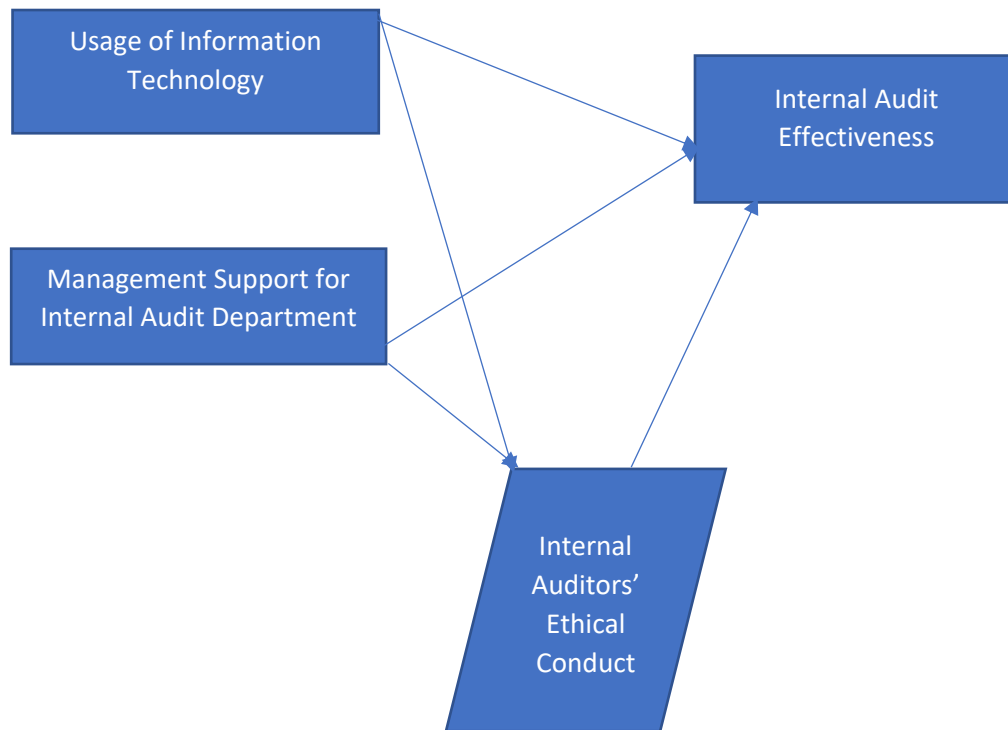


Figure 1, Conceptual Framework

The IAE model with mediating effect of internal auditors' ethical conduct was proposed through the theoretical support of agency theory developed by Jensen and Meckling (1976). Efficient and Effective internal audit is irrefutably essential to guarantee the effectiveness of internal audit. However, the Agency theory, effectiveness of internal audit cannot be accomplished unless all its components are efficiently, effectively, and functioning i.e., effectiveness of internal audit has confidence on some other variable's success and performance. However, agency theory was selected to underpin the existing study.

The agency theory developed by Jensen and Meckling (1976) provides theoretical basis for the IAE model, which proposes the ethical conduct of internal auditors as a mediating factor. In order to take moral responsibility and professional capability

into consideration while making judgments on IAE, the theory combines MSIAD and UIT (Iankova Natchkova, 2019). Three factors led to the selection of the theory as the foundation for the study's model. First, IAE, which also serves as the dependent variable in the study, is the dependent variable in the theory. The hypothesis proposed that psychological and sociological variables could provide a deeper explanation for IAE than the previous view, which attributed it to deterrent efforts. Second, because it explains how the IAE and its determinants are related, the model given in this study is quite strong in describing the links that are suggested. Finally, the theory highlights the significance of moral obligation, here defined as ethical conduct as a critical component influencing wise internal audit choices. This present study uses agency theory to clarify the relationship between the IAE, MSIAD and UIT as well as the mediating variable IAEC.

Agency theory's underlying assumption is that there would probably be a conflict between the interests of top management and owners as a result of information asymmetry (Kelly & Dokubo, 2021). The division of the organization's control from the owners is proof positive that there is an agency problem between shareholders and senior management (Jensen & Meckling, 1976).

The data gathered from primary sources will be used to test the hypotheses and develop the framework empirically. In order to explore the relationship between the constructs used in this study UIT, MSIAD, IAE and the mediating role of internal auditors' ethical conduct among the variables a cross-sectional quantitative research approach will be used in this study. Partial Least Square- structural equation modelling (PLS-SEM) will be used to test the hypotheses developed in this investigation. According to Lee et al. (2018), affirm that, there is a lot of potential in implementing PLS, which is more widely employed in the accounting and auditing fields. The potential importance of implementing it on the doctrine of accounting and auditing data sets has also been underlined by Hair et al. (2017a) and Khairunnisa et al. (2020).

This study's most important component is the cross-sectional research design since it saves time and cost-effectiveness (Sekaran & Bougie, 2016). Consistent with earlier research findings (Alzeban & Gwilliam, 2014a; Cohen & Sayag, 2010; Joshi, 2021), this study considers using a questionnaire to collect data in order to answer research questions. The purpose of the questionnaire is to collect data from respondents who are directly involved in internal audit function (Oyedokun et al., 2019).

A questionnaire that is distributed to each MDA in Kano state that has a chief, deputy chief, or senior internal auditor who is directly involved in internal audit functions will be used to gather the data for this study. Three components will make up the format of the questionnaires. Data on the overall demographic profile of respondents will be gathered and presented in Section (A). IAE will be covered in Section (B), and the elements that directly affect internal audit effectiveness are covered in Section (C). Due to its widespread acceptance for data collection which is attributable to huge populations in social science research the questionnaire is an approach that this study has modified to provide responses to the research objectives. Most of the questions on the questionnaire were modified from earlier research.

For instance, the questions are derived from the work of Alzeban and Gwilliam (2014b) and will be assessed using 15 items; the UIT is derived from Bagranoff et al.(2010) and Davis et al. (1997)will be assessed using 6 items; the MSIAD is also derived from Alzeban and Gwilliam (2014b) and will be assessed using 6 items; and the internal auditors' ethical conduct is derived from the work of Adekoya et al. (2020)and will be evaluated using 7 items.

IAE in Nigerian MDAs is the focus of this study's model. The existing assessment of earlier literature serves as the theoretical foundation for this suggested paradigm. This study's research design aims to investigate the connections among IAEC, UIT, MSIAD, and IAE.

This study is therefore intended to explore the mediating role that internal auditors' ethical conduct plays in the link between the variables that are being examined. This framework is being validated, and once it is, it will be able to provide a more accurate understanding of the effectiveness of internal audit functions carried out by the internal auditors of Nigerian MDAs.

This research has the capacity to broaden the body of knowledge on IAE, which is now limited to Nigeria but also includes other African nations worldwide. Therefore, other researchers can investigate the impact of internal auditors' ethical conduct as a mediating variable in a similar complex framework from different countries of the world. In general, this study has theoretically recognized that internal auditors' ethical conduct has the potential to serve as a mediator. As a conceptual paper, this study can, however, experimentally solidify the suggested framework through appropriate data collection and analysis.

The purpose of this research finding is to investigate UIT constructs associated with internal audit effectiveness in order to close a gap in the literature. Six designed items are available for use in examining the effects of UIT on various parameters. Researchers will be able to evaluate how different UIT platform capabilities impact different IAE antecedents' determinants by using this scale. This scale will help stakeholders evaluate the effects of numerous other factors on functionalities and enable professional auditors to understand how internal auditors see these functions. They will be able to remove any kinks in the functionality and provide recommendations for improvements by doing this. Internal auditors can therefore utilize this scale to update and improve their audit working paper for a better user experience.

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