

# The Institutional Theory on the Internal Audit Effectiveness: The Case of India

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## Abstract

The necessity and importance of internal auditing in the Indian listed companies is increasing because of the strengthening of corporate governance practices by regulatory bodies, and the Indian market environment is becoming more competitive. This study attempted to determine some of the critical factors that affect the effectiveness of internal auditing in Indian listed companies. To this end, a sample of 252 Nifty companies was recruited. We mailed questionnaires to the Head of Internal Audit Department, Chief of Accounts, and Chief Executive Officers of the companies. The overall response rate was 29.4%. Companies represented manufacturing, information technology, retail, banking, and financial services. The results of multiple regression analysis revealed that the factors affecting the effectiveness of internal auditing are *the competency of internal audit staff* and *the interaction of internal auditing with audit committee*. The study came to the conclusion that institutional theory best explains the effectiveness of internal auditing in Indian context. It thus encourages auditing professionals to develop their core competencies for delivering their services efficiently, and informs them that the continuous interaction with audit committee members will help them to be focused on the organizational performance by improving the IA effectiveness. At the end, the theoretical and practical implications of the study along with the directions for the future research are provided.

**Keyword:** Audit committee, Management support, Independence, Internal competency, Interactions of internal auditing and audit committee, India, Size.

## 1. Introduction

There is a plethora of research studies on the effectiveness of internal auditing (IA), but in general, these studies are not based on a strong theoretical framework. The research hypotheses of these studies have been built based only on the pragmatic context in which the research has been conducted. Most of these studies analyze the effectiveness of IA by referring to the applicable IA practice standards (Dejnaronk et al., 2015; Nurdiono & Gamayuni., 2018; Setyaningrum & Kuntadi, 2017).

Some studies such as Shamki and Alhajri (2017) and Endaya and Hanefah (2010) suggest agency theory to analyze the effectiveness of IA. From the viewpoint of agency theory, the IA is intended to eliminate agency problems between managers and shareholders. The Enron case that caused severe business trauma suggested an important role for IA in public companies. Agency theory views the independence of IA as critical in determining the effectiveness of IA. A study in Greek has shown that IA independence influences the effectiveness of IA (George et al., 2015).

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In developing countries, especially those with family business characteristics, IA's independence is not considered a critical problem because there is no agency problem between shareholders and management. Siregar and Utama (2008) stated that although family business managers make earning management, they do it so efficiently that it actually benefits the company. Therefore, IA's goal in family business companies is more focused on compliance – especially to external regulations – instead of efficiency goals. Research conducted in Indonesia even proves that the role of the company's independent commissioners (Rahardjo et al., 2019) is less than optimal, which may be due to the small number of independent commissioners according to the rules. However, empirical evidence collected by Setyaningrum and Kuntadi (2017) in family business companies concluded that independence has no effect on IA effectiveness. Therefore, stakeholder perspective needs to be considered in determining the effectiveness of IA. Pertaining to this discussion is the study by Türetken et al. (2020), which provided mixed results on the influence of audit independence, objectivity, and management support variables on IA effectiveness due to the stakeholder perspective.

The effectiveness of IA in developing countries is mostly caused by institutional factors. Research in developing countries contexts has been carried out by Nurdiono and Gamayuni (2018), Setyaningrum and Kuntadi (2017), Shamki and Alhajri (2017), Dejnaronk et al. (2015), Cohen and Sayag (2010), etc. However, these studies by and large lack in one way or another a theoretical framework regarding the effectiveness of IA.

Dejnaronk et al. (2015) found that factors influencing IA effectiveness include compliance with the Institute of Internal Auditors (IIA) standards, use of a risk-based audit plan, and presence of a quality assurance and improvement programs. Nurdiono and Gamayuni (2018) found that internal auditor (inspectorate) competency significantly affects IA quality. The research done by Setyaningrum and Kuntadi (2017) shows that competence, communication, and audit work have positive effects on the effectiveness of IA. Shamki and Alhajri (2017) found a significant relationship between the effectiveness of IA and the auditors' experience.

Based on what we said, the present study set out to analyze the factors that influence IA effectiveness using institutional theory (Dacin et al., 2002) in developing countries with family business characters. To this end, a case study of Indian companies was carried out. Institutional factors such as management support, internal audit team, audit committee interactions, etc., were predicted to influence the effectiveness of IA.

## **2. Neo-Institutional Theory on Internal Audit Effectiveness**

Institutional theory explains the process of institutionalizing a practice in a group or institution through a systematic, structured institutional change of behavior (Clemens & Cook, 1999). The process of institutionalization results in the uniformity of desirable practices (Dacin et al., 2002; Oliver, 1991), and homogeneous group member or institution behavior can be explained by institutional theory (Fernando & Lawrence, 2014; Meyer & Rowan, 1977).

Neo-institutional theory emphasizes political behavior aspect in the process of institutionalization (Lang, 2018). This political aspect manages values and norms collectively for the interests or goals of certain groups or actors (Oliver, 1991). DiMaggio and Powel (1991) refer to the political process as isomorphism. They decompose three forms of isomorphism, namely mimetic isomorphism (which is the pressure to imitate an action or practice carried out by another party), coercive isomorphism (which is coercive pressure that comes from regulations or powerful figures or parties), and normative isomorphism (which is

pressure to adopt certain systems or methods in order to meet standards in order to obtain certification from professional institutions).

Neo-institutional theory can be used to explain IA practices, particularly the coercive isomorphism and normative isomorphism. The issue of IA became a serious discussion in the USA and other countries following the publication of the Sarbaney Oxley Acts (US Congress, 2002). Various countries issued regulations on corporate governance that require an IA function on public companies. In India, the issue of corporate governance for listed companies came into existence based on the recommendations Kumar Mangalam Birla Committee (2000), which was set up by Securities Exchange Board of India (SEBI). It suggested the inclusion of a new clause in **Companies Act of 2013 (Ministry of Corporate Affairs, India, 2013)**, namely Clause 49 which purpose is to enhance good corporate governance of for public companies, and has provisions regarding the audit committee. The role of the committee includes reviewing and monitoring auditor independence, the approval of related party transactions, inter-corporate loans, valuations, etc., in the Listing Agreement to promote good corporate governance (Deloitte, 2020). Additionally, the new **Companies Act 2013 (Ministry of Corporate Affair India, 2013)** provides a formal structure for corporate governance by enhancing disclosures, reporting, and transparency through enhanced as well as new compliance norms (Deloitte, 2020).

With the increasing importance of issues regarding IA, the profession of internal auditor is increasingly highlighted. The Institute of Internal Auditors (IIA) is an international professional association that has been established in 1941 in the USA, and currently holds a very important role. Today more than 170 countries are members of IIA. IIA published International Standards for Professional Practice of Internal Auditing (ISPPA) to maintain the high quality of internal audit practices globally. Various certifications such as Certified Internal Auditor (CIA), Qualification in Internal Audit Leadership (QIAL), and various training courses are held so that all members of the IA profession achieve the expected quality standards.

### 3. Hypothesis Development

Figure 1 below presents the theoretical framework of the study. **The effectiveness of IA is better explained by coercive isomorphism and normative isomorphism (DiMaggio and Powell, 1991)**. Based on the coercive isomorphism, the effectiveness of IA in a company is determined by its powerful IA position in the company. When the IA position is powerful, the findings of the IA will be immediately followed up for improvement. In a business that separates the ownership and control, the existence of IA is considered as an agency cost to eliminate the manager's moral hazard. Therefore, IA tends to lack support from managers. Hence, management support is less important in companies in developed countries that tend to separate control and ownership (Rudhani et al., 2017). The effectiveness of IA in companies that separate control and ownership relies more on auditor's independence. Besides, the strong law enforcement may provide more motivation for IA in carrying out its functions, which in turn enhances the effectiveness of IA functions.

However, in developing countries characterized by a family business company structure, IA is also a representation of managers, so there is no conflict between managers and IA. In India, internal audit is part of the audit committee in which some members are from external parties. The aim is to protect minority shareholders. However, because the number of independent parties is small, the independent parties are generally outvoted. A study done by Setyaningrum and Kuntadi (2017) demonstrates that IA independence does not significantly affect the effectiveness of IA. Therefore, top management support is important in determining

IA effectiveness. Previous studies have emphasized the importance of management support and IA independence in determining the effectiveness of IA (Cohen & Sayag, 2010; George et al., 2015; Huong, 2018; Musah et al., 2018; Rudhani et al., 2017). Moreover, Ikin (2005) decomposed independence as independence in appearance and independence in fact. In the family business of developing countries, even though IA is not independent in appearance, it is still required to be independent in fact.

Bearing in mind that the existence of IA within the organization is to strengthen corporate governance, the existence of governance regulations is also important in determining the effectiveness of IA. Regulation provides support and control given to the auditor and the internal audit process. In India, capital market authorities – i.e., the Securities Board of India (SEBI) – monitors IA through the Audit Committee (AC). According to SEBI Clause 49 of the listing agreement, the establishment of an AC is mandatory for listed companies. The AC frames rules pertaining to governance, and reviews and monitors the work of IA. Clause 49 of the listing agreement requires that the audit committee be comprised of at least three directors as members of the committee, out of which at least two-third members have to be independent directors. All audit committee have to be financially literate and at least one member has sufficient accounting or related financial management expertise.

The interactions of AC with IA are a prerequisite for corporate governance implementation in India. This relationship of AC and IA is also considered to enhance independent behavior of IA. IA function involves, therefore, frequent meetings with AC. The relationship with AC strengthens the IA tasks and activities. Abbott et al. (2012) report that AC – which supervises internal auditing the most – allocates more hours for internal auditing. Boubaker and Taher (2013) study findings show that the frequency of the meetings of the AC has a positive influence on the IA function. Gebrayel et al. (2018) found that AC meetings frequency and the presence of IA function positively affect a company's financial reporting quality. Similarly, the cooperation between the IA and the AC is very critical as it has an impact on the effectiveness of the IA activities through information and data sharing (see Alshbiel, 2017). Based on the foregoing discussion, the following hypotheses are proposed:

**H1:** Top management support influences IA effectiveness.

**H2:** Independent behavior influences the IA effectiveness.

**H3:** The frequency of interactions between IA and AC has a positive and significant relationship with IA effectiveness.

The increasing practice of IA globally today can be explained by normative isomorphism. IIA membership in more than 170 countries has consequences for countries implementing IA practices in line with the International Standards for Professional Practice of Internal Auditing (ISPPIA) and other standards issued by IIA. Dejnaronk et al. (2015) proved that adherence to standards issued by IIA increases the effectiveness of IA. IIA also conducts various training and certifications to harmonize IA practices in line with the standards and regulations issued by IIA and improve the internal competencies of auditors individually and in teams in order to increase the effectiveness of IA in all member countries.

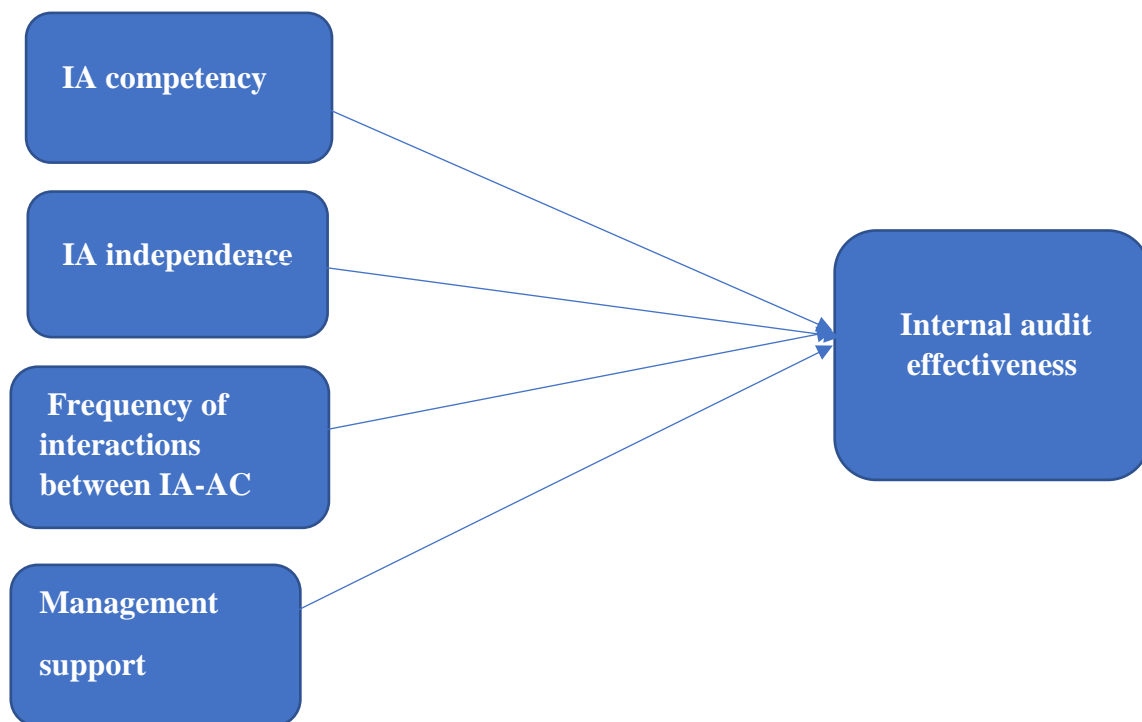
The competency and proficiency of internal audit staff or team may play a significant role in the contributions and effectiveness of IA. Several researchers argued that internal auditors have to possess the knowledge, skills, and other needed competencies to achieve their individual responsibilities. In this context, the Institute of Internal Auditors requires internal auditors to possess the knowledge, skills, and other competencies needed to perform their individual responsibilities (IIA, 2012). George et al. (2015) posit that internal audit team is deemed a significant variable that influences the IA effectiveness. Moreover, according to Mathius (2016), competence includes expertise, knowledge, and experience. A competent IA

has the knowledge, training, certification, skills, and experience sufficient to be able to perform successfully the audit tasks.

Jachi and Yona (2019) study establishes that IA function competency dimensions of qualification, experience, and training have a significant positive relationship with transparency and accountability in Zimbabwe's context. Furthermore, their study reveals the need to improve and uphold IA function competency through the creation of an enabling environment to support IA functions and guarantee their effectiveness in upholding corporate governance practices. Mousa (2005) reports that proficiency and due professional care in the form of competence form a significant factor in IA effectiveness. In addition, Cohen and Sayag (2010) report that the professional efficiency of internal auditors is integral for the effectiveness of IA. Similarly, Alzeban and Gwilliam (2014) study shows that the increased IA effectiveness appeared to have an association with higher IA competence. **Hailemariam (2014)** also reports that competent IA staff have a significant and positive effect on the effectiveness of IA. In a more recent study, Novranggi and Sunardi (2019) report that competence auditor affects the effectiveness of IA.

Based our discussion here, the study formulates the following hypothesis:

**H4:** Internal audit competence positively and significantly influences IA effectiveness.



**Figure 1.** Research Framework Model

#### 4. Sample

The sample for this study was derived from Nifty500 listed companies. A proportionate progressive random sampling method was used based on market capitalization as on December 31, 2018. A total of 252 companies agreed to participate in the study. A copy of self-designed questionnaire was sent by post and also an online link by email to the Head of Internal Audit department, Internal Auditors, Chief Accountants, etc. The respondents were given one and half month time to reply to the questionnaire. The ones who did not return the

filled questionnaires in the due time were sent another message after three weeks, requesting them to complete the questionnaire.

The study was conducted during January-April, 2020. In the questionnaire, we sought information on demography, and included statements related to IA effectiveness on the independent variables. A Likert scale of 1 to 5 was used to measure the responses. The questionnaire was pretested with audit practitioners and audit educators and it was further improved based on feedback.

Finally, we received 74 completed questionnaires (the response rate was 29.4%). Some of the questionnaires were found to be incomplete and others were removed due to outlier problem. The final analysis included 66 questionnaires. Listed companies from automobile, paint, fertilizer and chemical, petrochemical cement, pharmaceutical, steel, consumer goods, engineering, food and beverages, banking and financial services and other industries participated in the study. The survey was completed in four months in the early half of 2020. It needs to be mentioned here that in the Indian context, the average response rate for studies that collect data through questionnaires from organizations is 13.31, with a standard deviation of 6.19 (Krishnana & Poulloseb, 2016). That is to say, our response rate is much higher than the previous industrial survey response rates in India. We tried to improve the response rate by sending reminders, offering to provide a summary of the findings to them, and strictly preserving the confidentiality of the responses. Additionally, Indian companies' managers are generally conservative and consider their accounting information fairly secretive.

## 5. Research Variable and Model

This study analyzed the factors that influence the effectiveness of IA in India. The research model that was tested by regression analysis was as follows:

$$IAE = \beta_0 + \beta_1 MS + \beta_2 INDEP + \beta_3 INTRCT + \beta_4 COMPT + \varepsilon$$

Where,

IAE : Internal audit effectiveness

MS : Management support

INDEP : Internal auditor independence

INTRCT : Frequency of interaction between IA and AC

COMPT : Internal auditor competency

All research variables were tested for validity and reliability with the Harman Single-Factor Test (HSFT) as presented in Table 1.

Table 1 shows that all the parameters of conducting scientific research are met by this research. Firstly, the values of factor loadings for each statement related to independent variables (i.e., independence, competency, interactions of IA with AC, and management support) and dependent variable (IA effectiveness) are more than the threshold level of 0.50. Moreover, Cronbach's alpha coefficients values are more than 0.70, and so are considered significant and highly reliable. Therefore, the results show a great internal consistency for the four independent variables. Lastly, the coefficients of KMO are higher than 0.5, with a significant Bartlett's Test ( $p < 0.01$ ).

**Table 1.** Results of Factor Analysis

Variables	Statements	Factor loadings	KMO	Cronbach's Alpha
INDEP	IAs has access to audit independently any area in the organization.	0.813	0.663	0.805
	IAs have unrestricted access to all departments and employees in the organization.	0.746		
	IA reports to the highest level within the business.	0.605		
COMPT	IA unit has the right mix and competencies in specialist areas such as IT, treasury, and risk management.	0.671	0.674	0.721
	IAs are proactive in their approach.	0.670		
	IAs attend educational seminars and training for continuous training.	0.587		
INTRCT	Frequent meetings of AC with IA facilitate the monitoring and reviewing the work of IA functions, resulting in its increased effectiveness.	0.881	0.883	0.931
	Frequent meetings of AC with IA lead to an enhanced internal audit function that ultimately increases IA effectiveness.	0.829		
	Frequent meetings of AC with IA enable the IA to implement its recommendations in a timely and effectively manner.	0.783		
	Frequent meetings of AC with IA help in establishing a power base for the IA function, thereby enabling it to fulfill its obligations.	0.757		
	Frequent meetings of AC with IA minimize the problems in financial reporting.	0.684		
MS	Internal audit department has adequate budget to carry out its responsibilities effectively.	0.858	0.578	0.754
	Top management provides assistance and encouragement for the training and development of internal audit staff.	0.849		
	Internal audit department is large enough to carry out its duties effectively.	0.839		
	Senior management is aware of the resources required for internal audit.	0.819		
IAE	IA improves department's operational performance.	0.800	0.766	0.757
	IA improves organizational performance.	0.768		
	IA adds value to the operations.	0.767		
	IA makes proposals for enhancing the internal control framework when suitable.	0.743		
	IA assesses the effectiveness of internal controls.	0.722		
	IA reviews the economical, successful, and effective utilization of assets.	0.583		

## 6. Findings

Table 2 presents descriptive statistics of all research variables.

**Table 2.** Descriptive Statistics

	Mean	Std. Deviation	N
IAE	4.534	0.404	66
MS	4.187	0.587	66
COMPT	3.936	0.635	66
Log of total assets (ASSET)	10.982	0.843	66
INDEP	4.515	0.573	66
INTRCT	4.303	0.699	66

Table 2 shows the mean values and standard deviations for the dependent and independent variables. It is to be noted that the lowest mean value of 3.936 is related to the *competency of internal auditor*, and the mean value is more than four for other independent variables. The same is the case for IA effectiveness as the dependent variable (M=4.515). The value of the log of total assets, which is taken as a control variable, is 10.982. Additionally, the value of SD for all the variables is normal. Following descriptive statistics, the Pearson correlation matrix is presented in Table 3:

**Table 3.** Pearson Correlation

		IAE	MS	COMPT	ASSET	INDEP	INTRCT
Pearson Correlation	IAE	1.000	.336	.446	.018	.265	.467
	MS	.336	1.000	.353	.100	.312	.473
	COMPT	.446	.353	1.000	-.030	.351	.359
	ASSET	.018	.100	-.030	1.000	-.057	.046
	INDEP	.265	.312	.351	-.057	1.000	.270
	INTRCT	.467	.473	.359	.046	.270	1.000

Pearson correlation matrix shows that the correlations among the independent variables are on the lower side. The maximum correlation observed is 0.473 between *management support* and *frequent meetings of IA with AC*. Table 3 does not show any problem of multicollinearity among the variables under study. The VIF values in the regression results also confirm this point.

**Table 4.** Regression Coefficients

Model*	Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
	B	Std. ERROR	Beta			Tolerance	VIF
(Constant)	2.608	0.706		3.695	0.000		
MS	0.045	0.087	0.065	0.513	0.610	0.708	1.412
COMPT	0.184	0.077	0.289	2.383	0.020	0.776	1.289
LOG. ASSET	0.004	0.052	0.009	0.082	0.935	0.979	1.022
INDEP	0.041	0.083	0.058	0.495	0.623	0.824	1.213
INTRC	0.183	0.072	0.316	2.526	0.014	0.728	1.374

Dependent variable: IAE

R: .561

R square: .314

Adjusted R square: .257

F: 5.503, Sig.: .000

Durbin-Watson: 1.769

Regression coefficients are presented in Table 4. An examination of the results indicates that there is no multicollinearity problem in the data set as the VIF values are low. Moreover, the direction of all independent variables tested in this study is positive. However, only two variables turned out to be significant in explaining the effectiveness of **IA which are frequency of interactions between IA and AC, and IA competence**. In other words, regression results show very strong support for hypotheses 3 and 4. Firstly, *IA competency* has a positive and significant ( $t = 2.383$ ;  $p < 0.05$ ) relationship with IA effectiveness. Hence, the alternative hypothesis 4 is accepted. The findings support the IIA (2012) argument that the competence of internal staff is one of the nine core elements for the effective IA. Furthermore, our finding is congruent with the results of the prior studies (e.g., Albrecht et al., 1988; Alzeban & Gwilliam, 2014; Bednarek, 2018; Huong, 2018). In this regard, Bou-Raad (2000) posited that a higher education qualification is necessary for IAs to be considered a human resource. As IIA (2017, p.6) states:

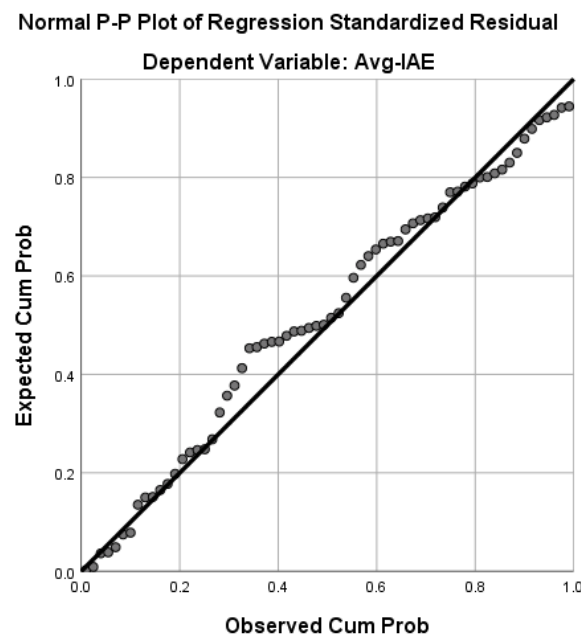


‘The internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities, which is referred to as proficiency. Similarly, ‘the internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor’, which is referred to as professional care”.

Secondly, it is also found that *frequent interactions between IA- AC* ( $t= 2.526$ ;  $p<0.05$ ) has a positive and significant effect on the IA effectiveness. Therefore, **alternative hypothesis 3** is accepted. From this relationship, an insight is provided by the results that AC considers IA as an important information provider. Regulatory bodies like SEBI in India require AC to review and monitor the work and performance of IA, and there should be frequent interactions between the two. It is worth mentioning here that IIA (2004) suggested that the head of internal audit function should report to and discuss confidential matters with AC to strengthen the corporate governance practices. They may also enable the organization to maintain the organizational independence of IA from management. Our findings are in line with findings by Alshbiel (2017). The frequent meetings between IA and AC lead to sharing important information and data about the organization’s operating performance and IA function.

The reported F value shown on Table 4 is quite high and significant, which implies that the regression model is significant at 0.01 level. The R value is 56.1 percent and the explanatory power of the model is 31.4%., indicating that independent variables explain 31.4% of variation in the dependent variable. The F-ratio turned out to be 5.503 (df. 60:5,  $p<0.001$ ). The significance of F ratio supports the significance of the regression model, too.

Figure 1 presents the normal P-P of regression standardized residuals for the dependent variable.



## 7. Discussion

The results of the study prove that all independent variables have a positive effect on IAE, but only *auditor’s competency* and *IA’s interaction with the AC* show a significant effect on IAE, whereas *management support* and *IA independence* have no significant effect. The insignificant influence of IA’s independence can be explained by the characteristics of family

business companies in India in particular and the developing countries in general, where IA is part of management representing the majority shareholders (Siregar & Utama, 2008). In other countries such as Indonesia, government regulations require the existence of an independent IA, but the number is small, so they still cannot demonstrate their independence because of the small number of votes (Rahardjo et al., 2019).

An interesting finding is the insignificant influence of *management support* on IAE – as IA is part of management – while on the other hand, The *interaction between AC and IA* has positive influence on IAE. There are several things that might explain this condition. The first is the strong role of the government through the SEBI in enforcing corporate governance, forcing companies to comply with capital market regulations issued. Capital market regulations require the presence of ACs in companies, whose function is to monitor IA. Empirical evidence shows that the ‘interaction of IA and AC’ has a significant effect on IAE. Thus, it is understood that the role of government is significant in the governance practices of Indian companies.

The second is the magnitude of the influence of international professional associations, especially IIA in India. Membership in IIA requires companies to implement IA practices that are in accordance with the framework and standards issued by IIA, especially ISPPA. The implementation of ISPPA requires audit competence in carrying out internal audit procedures. Therefore, companies participate in various training and certifications to improve their competence. Empirical evidence shows that IA competence has a significant effect on IAE. The importance of IA competency was also proven by Nurdiono and Gamayuni (2018) and **Usman (2016)**. Dejnaronk et al. (2015) explained that adherence to IIA standards affects IAE.

The results of this study suggest the importance of auditor competence and good communication between the IA and the AC in determining the effectiveness of internal audit. Alzeban and Gwilliam (2014) even argued that IA competence is an important key to the effectiveness of the internal audit activities. In developing countries where systems and infrastructure are not as good as the developed countries, auditor competence is a valuable resource. One of the most important internal auditor competencies is communication skills (Bailey, 2011; Narkchai & Fadzil, 2017; **Sarens, 2009**).

Various studies show the importance of coordination between IA and AC (Khelil et al., 2016; Mahdawi et al., 2018; Sarens et al., 2009). Khelil et al. (2016) found that the coordination of IA and AC increases the morale of the chief audit executive to act more ethically, which ultimately increases the effectiveness of internal auditing. Because in most cases, some AC members are non-executive directors, IA’s competence is increasingly considered important in communicating the operational aspects of internal auditing and monitoring (**Sarens & De Beelde, 2006**).

This research shows the role of institutional theory in the explanation of the effectiveness of IA that occurs through coercive isomorphism and normative isomorphism. Coercive isomorphism originates from government pressure through capital market regulation, while normative isomorphism is caused by the great influence of IIA.

### *Conclusions and Implications of Findings*

This study’s findings report that ‘competency of IA’ and ‘interactions of IA with AC’ are the key factors in influencing the IA effectiveness in Indian context. It is to be noted that the competency traits of IA and interactions with AC enable him/her to review and independently provide assurance on risk management, governance, and internal control systems. This study contributes to the literature from a fast-developing country, India. Our

framework measures the relationships between IA's competency and interactions of IA with AC and the effectiveness of IA.

As the establishment of IA department in listed companies is gradually becoming a necessary requirement, the institutional theory emphasizes its expanding role within the organization as an important arm of corporate governance role. As a regulatory body, SEBI should pay more attention to the issue of maintaining an IA function mandatory, the relationship between the IA function and other governance parties (especially the audit committee), and the disclosure of more relevant information about the internal audit department's characteristics and practices. It needs to be emphasized that the observations and recommendations made by IA function and actions taken by management should be disclosed in the annual reports for better transparency and for the benefits of the stakeholders. The findings of this study encourage auditing professionals to develop their core competencies for delivering their services efficiently. Moreover, a continuous interaction with audit committee members will help them be focused on the organizational performance by improving the IA effectiveness.

Martinov-Bennie and Soh (2009) state that since ACs and IAs have common goals to achieve, a positive and significant association between them may greatly help each other in performing their duties and responsibilities. Additionally, the findings may also be of concern to the board of directors in responding in a better way to their responsibilities related to IA and AC relationship, which helps improve IA effectiveness. Moreover, regulators such as SEBI in India can also benefit by strengthening areas with substantial impact on internal audit's contribution to corporate governance and in maintaining its independence from management.

The agenda for future research might include addressing various stakeholders, such as external auditors and internal **auditors** in investigating the IA effectiveness. Case studies of specific industries such as oil and gas, manufacturing, and financial services may also be investigated. Additionally, audit committee independence and competency may also be examined in future research. Finally, taking the effects of COVID-19 on internal audit effectiveness may be another area of interest in this regard.

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