



The Contribution of internal audit to the corporate performance: a proposal of measurement indicators

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ABSTRACT

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This paper relies on the link between internal audit and corporate performance.

Indeed, internal audit is an important function in the company as it plays the role of counselor to good management and towards improving the competitiveness of organizations. However, to fully take this role, structure of internal audit is expected to have qualified staff who care for the effectiveness of procedures and control costs. An effective audit helps to increase business performance through risk management, by improving production and management processes and maintaining an internal control itself which will arise later in a contribution performance.

The objective of this article is to propose and calculate indicators that will allow us to measure the contribution of the structure of internal audit performance. To collect data for this study, we conducted in-depth interviews and a survey using a questionnaire to various employees of an SME.

1. Introduction

The subject of this article is part of a broad debate. This is the contribution of internal audit to improving corporate performance. Indeed, internal audit is an important function in the company because it plays the role of the guide towards good management and towards improving the competitiveness of organizations. However, to take this role, the internal audit structure is called to:

- Have qualified, high-level and high-potential staff who are familiar with the organization's "business", its management style, its culture and its internal control system;
- Have a team that constantly strives to meet the expectations of its customers;
- Have an internal audit director who cares about the efficiency of procedures and the control of operating costs.

However, the company is able to have a rigorous internal control system in order to provide it with reasonable assurance and reduce the various risks to which it is exposed. The effectiveness of this system will better contribute to achieving its goals and long-term profitability objectives and becoming increasingly efficient and competitive in the market. The subject of this article fits into the perspective of an already developed work entitled "internal audit in companies: degree of integration and explanatory variables" (Y. HILMI 2016). Among the companies responding to our questionnaire, we

took the case of a COMPANY that strongly integrates internal audit into its management system and then calculated indicators to measure financial performance.

This article aims to study the contribution of internal audit to the corporate performance. Indeed, if the internal audit function takes correctly its role within the organization, it can become not only a means of protection and the fight against misappropriation of assets and fraud in general, but also as a means of achieving earnings. This document has two points:

- The first point will focus on the conceptual framework of internal audit and performance as an objective to be achieved for companies.
- The second point will deal with the contribution of internal audit to performance through the calculation of direct and indirect performance indicators.

2. The conceptual framework of internal audit and performance

2.1 Corporate performance

The concept of performance is not so easy to pin down. Each theoretical current tries to approach it in its own way. Like internal audit, it has evolved over time. Each approach provided a definitional surplus or addition to the one before it. Performance is a global concept that relates to the achievement of objectives, which themselves depend on the strategy and key players. Performance

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protection varies from the point of view of shareholders, managers, customers, etc. However, there are recognized performance measurement criteria: profitability, productivity and performance. There are two conceptions of performance audit; One, concerning the quality of the technical performance of the systems; implemented by the company in order to achieve its objectives. The other, passing judgment on the performance of the company itself and its management. An effective audit makes it possible to increase the performance of companies by controlling risks, by improving production and management processes and by maintaining internal control itself.

The effectiveness of internal control therefore contributes to the performance of the company and constitutes for the internal audit department a basic tool for the assessment of the company and the system. Indeed, a deficient internal control obliges the auditor to examine the activities in more depth and pose a permanent risk to their performance, even their opportunity, even if this risk has not yet materialized. The corporate performance revolves around everything that contributes to improving the value-cost couple and which thus tends towards the maximization of the net creation of value. A performant company can be considered as:

- A sustainable business, which earns money and is sustainably profitable
- A company that challenges its competitors in terms of quality and speed of service
- An innovative, efficient, responsive company that evolves surely, constantly and sustainably
- A company that creates value while meeting market requirements with a head start
- A company that has implemented good performance indicators to establish winning development strategies.

1.2. Conceptual framework of audit and internal control

The definitions given to the term "audit" are generally varied and often confusing, thereby posing a serious problem of terminology. The term "audit" remains, however, impregnated with its origin *auditus* which means hearing. According to Stetter (1974): "An audit is, in effect, a review and an interview or hearing leading to an evaluation or assessment". Originally and until the 1970s, According to Collins and Valin (1996) the audit was considered as a "Set of techniques allowing to analyze and evaluate the methods of the company". In the minds of many, the audit was linked to accounting and financial methods. Benedict and Keravel (1974) define the audit in a simple way: the audit is a critical examination which makes it possible to verify the information given by the company". The same definition was used by Raffegau et al. who emphasized the fact that the audit corresponds to a need for control that is difficult to dissociate from economic activity. They define it as follows: "the audit is

a critical examination which makes it possible to verify the information given by the company and to assess the operations and the systems put in place to introduce them". But beyond this objective of controlling a situation at a given moment, according to Marders (2004) the audit must focus "on the proper management and safeguarding of financial assets as well as on the concrete effectiveness of the decisions taken". It is in this sense that the definition proposed by Bouquin and Bécour (2007) meets this objective. Indeed, they define the audit as "the activity which applies, in complete independence, consistent procedures and examination standards with a view to evaluating the adequacy and functioning of all or part of the actions carried out, in a organization, by reference to standards". The audit plays here a primary role of observation of reality, verification of data and quality of information. A second role consists, then, in seeing how the consistency of the practices implemented is ensured both with the regulatory structures and with the various policies of the organization: financial, industrial, commercial, social, etc.

Nowadays, we can encounter many forms of audit that tend to resemble each other while sometimes being complementary. Among these forms of audit, some are more common, such as external audit and internal audit. Coming from accounting and financial control, the internal audit function nowadays covers a much broader and richer conception, meeting the growing demands of the increasingly complex management of companies. Indeed, for Collins & Valin (1996) "Internal audit is, within a company or an organization, an independent activity of appreciation of the control of the operations. He is in the service of management. In this area, it is a control that has the function of a better control of their activities". This control is possible thanks to a good internal control system. According to Sawyer: "control includes all the means created in a company to direct, contain, govern and control its activities in order to ensure the achievement of its objectives". Every entity has internal control, whether good or bad, but it does exist. According to Mikol, internal control is defined under a classic approach, as "All the provisions included in the organizations and in the procedures, provisions whose purpose is to ensure the quality of information, the protection of assets, compliance with the laws as well as the plans and policies of the general management as well as the efficiency of the operation of the company". This approach, however, has its limits. Currently, internal control has a broader and more precise definition. Indeed, internal control is considered, according to IFACI (2004), as "a process implemented by the general management, the hierarchy and the staff of a company to achieve the objectives, mentioned above, and the efficiency operations".

3. The contribution of internal audit to the performance case of a COMPANY.

The analysis of the relationship between internal audit and performance revealed that the link is positive. The theory confirmed that, on the one hand, internal audit influences performance and, on the other hand, the very high degree of integration of internal audit has a much stronger impact on performance. Thus, as the degree of internal audit integration moves from one level to another, performance improves even further. The measurement of the recognition of internal audit within the COMPANY can be carried out by highlighting the link of involvement between internal audit and performance.

In this paragraph, we will try to test whether there is an implication relationship between internal audit and company performance. This relationship can be demonstrated through two main categories of indicators: direct indicators and indirect indicators. This study will be conducted based on the responses of 20 employees belonging to a Moroccan COMPANY

3.1 Internal audit and performance: direct indicators

The first measure of the effect of internal audit on business performance is through direct indicators. These indicators fall into three categories: impact indicators, management indicators and results indicators.

2.1.1 Impact indicators

These consist on the direct effects and the added value on the company's activities, as well as customer satisfaction, with regard to the achievement of objectives. This is indeed the indicator called: Potential monetary gain. This monetary gain can be measured by the increase in turnover, market share, or by that of the result. But this gain can also be measured by the potential loss(s) that internal audit was able to avoid. It is difficult to obtain this gain in absolute terms. The latter is approached in relative and approximate terms.

- Internal audit recommendations / sales revenue / Net income:

By this indicator we mean the portion of the increase in sales revenue and also the portion of the increase in the net result of the company attributed to the recommendations of the internal auditor.

Table N 1: Recommendations - the increase of sales revenue

THE IMPROVE MENT OF SALES REVENUE	THE IMPROVE MENT OF NET RESULT	PERIOD OF IMPROVE MENT	NUMBER OF RECOMMENDATIONS
0%	0%	—	0
LESS THAN 10%	Less than 5%	2008-2009	6
BETWEEN 10% ET 20%	Less than 10%	2004-2005	8
BETWEEN 20% ET 40%	Between 10% and 20%	2000-2001	11
MORE THAN 40%	Between 20% and 30%	1995-1996	13

Source: Corporate Internal Audit Department

This table shows that the internal audit's recommendations of the company increases turnover with a proportion of 20% and of the net result with a proportion of 15%. Indeed, one year after the creation of the internal audit department in 1994, the internal auditors issued 13 recommendations following an evaluation by a systematic and methodical approach of the risk management and internal control processes, from which the subsequent improvement in the company's turnover by more than 40% and the net result by more than 20%. Then, the recommendations of the internal auditors have a positive influence on the turnover and on the net result of the company; but in different proportions.

The contribution of the recommendations of the internal audit in monetary form can also face a charge or a loss or even prevent the occurrence of a lost profit. Indeed, the preventive action of the internal audit prevented the loss of a customer with which approximately 20% of the turnover is carried out and prevented the risk relating to the total loss of a machine of a value approximately 15% of total assets.

2.1.2. Management indicators

The impact indicators are supplemented by others that measure optimization in internal audit. This can be explained by the fact that the recognition of internal audit as an agent of change is only clearly evident if the resources made available to it are optimized. These are indeed the elements that make it possible to better manage the resources of the internal audit department. The main management indicators are: hourly cost of the internal audit function and internal audit resources. According to the company's internal audit director, the cost of carrying out the internal audit activity per hour of intervention does not exceed 900 DH (salaries, travel, etc.). In Canada, this cost was in the private market of 1000 DH in 1998. That is

to say, the maximum cost per hour of intervention in 2013 is the same as that of Canada 15 years ago. This implies that the cost of internal audit is at its minimum and in terms of its impact, it is optimal. This observation is corroborated by the sufficiency of financial resources allocated to the internal audit function within the company. The “internal audit resources” indicator is an indicator that measures the relative importance of the resources devoted to the internal audit function by the company. At the company level, the resources made available to the internal audit function, in comparison with those reserved for the other functions, are less important. This absolutely does not mean that the resources allocated to this service are insufficient, but rather efficient. The management indicators, as analyzed above, show that the resources at the level of the company's internal audit management are well managed and optimized. That is to say, the couple cost-value is improved.

2.1.3 Results indicators

These are indicators that measure the work and the efforts done with by practicing the audit mission. This is generally about respecting the initial planning and the time devoted to internal audit work. Compliance with the initial audit mission plan is also an element that justifies the contribution of internal audit to the company. At the company level, the director of internal audit affirms that in 70% of cases, internal auditors respect the initial plan against 30% where they are not. According to him, the cause of this situation is mainly the occurrence of unforeseen incidents. Regarding the time spent on internal audit work, the internal audit director estimates that internal auditors perform audit work 60% to 80% of the time. This can be explained by other work carried out by the auditor without which does not fall within his remit. Indeed, the auditor develops and implements organizational procedures that take between 5% and 40% of his time. The performance indicators stipulate that the company is generally able to respect the time reserved for the work of the initial audit planning, despite the non-responsibility tasks that the internal audit management is asked to ensure. From the above, we can say that all the indicators demonstrate the positive contribution of the internal auditor's recommendations. Indeed, when the recommendations are accepted and acted upon, they lead to the improvement of enormous monetary gains which, certainly, exceed the cost of the resources committed for this purpose.

These direct indicators can be supplemented by others that measure recognition of the contribution of internal audit, but indirectly.

3.2. Internal audit and corporate performance: indirect indicators

In order to measure the link between internal audit and performance, several indicators coexist alongside the

direct indicators studied. These include three indirect indicators, namely: characteristics of the auditor, requests for assignments, reception by the auditees and their cooperation.

3.2.1 Characteristics of the corporate auditor

The characteristics of the listener are very important and decisive in terms of recognition, adding value and improving performance. These include, in particular, open-mindedness, ethical conduct, the perception of the auditor by the auditee and the behavior of management with regard to the audit.

- **Freedom of spirit of the auditor:** it objectively depends on the positioning of the internal audit. Internal audit occupies a sufficiently high rank in the hierarchy to have the necessary authority vis-à-vis the auditees. In addition, internal auditors have a personal intellectual attitude of objectivity since the director of internal audit ensures compliance with international standards.

- **Ethical conduct of the auditor:** the state of compliance with international internal audit standards leads us to question the ethical conduct of management personnel. According to the director of internal audit, compliance with the code of ethics as approved by the board of directors of the major international internal audit body is the best guarantee of great professionalism and competence. He adds that 80% of his staff respect this code, while the rest are in the middle box, sometimes respecting its principles, or respecting only a few.

- **The perception of the auditor by the auditee:** we asked the employees of this COMPANY the following question: “How are the auditors perceived within your organization?” », with the possibility of ticking several answers.

Table N 2 : The perception of the auditor by the auditee

THE PERCEPTION OF THE AUDITOR BY THE AUDITEE	NUMBER	FREQUENCY
FRAUD HUNTER	9	45%
FIGURES MAN	17	85%
CONSULTANT	7	35%
TOTAL OBSERVATIONS	20	--

Source: Elaborated by the authors

According to this table, the most widespread perception of the internal auditor is that of a man of numbers, with 85% compared to the other perceptions.

- **Management behavior towards the audit:** Recognition, added value and consulting only result in support and backing from senior management. Indeed, according to the director of internal audit, the internal audit department benefits from very extensive monitoring and support from senior management.

3.2.2 Assignment Requests

In marketing, if there is demand, the product is recognized as good. The more you are asked the more you are recognized. This indicator aims to know the overall evolution of requests for audit assignments.

Table N 3: Overall evolution of mission requests

	2004	2006	2008	2010
NUMBER OF THE REQUESTS FOR AUDIT MISSIONS	49	60	69	72

Source: Internal Audit Department of the company

From this chart, we can say that the total number of mission requests addressed by the other departments to the internal auditors is in positive evolution from 2004 to 2010. This implies that over time, the internal auditor becomes more also solicited by operational staff for its recommendations and advice.

3.2.3 Reception by the auditees and their cooperation

By this, we aim to measure the cooperation between the auditees and the internal auditor in order to know, if he is well received and helped within this COMPANY in order to achieve the ultimate goal which is that of the entity. . This can be explained by the fact that the internal auditor, as soon as he carries out a second mission in the same entity, he can measure his rating and assess the climate of the progress of his missions.

Table N 4: Evaluation of the auditees' behavior

EVALUATION OF THE AUDITEES' BEHAVIOR	NUMBER	PERCENTAGE
VERY GOOD RECEPTION AND STRONG COOPERATION	5	25%
GOOD RECEPTION AND STRONG COOPERATION	12	60%
MEDIUM RECEPTION AND COOPERATION	3	15%
MEAN RECEPTION WITHOUT COOPERATION	0	0%
TOTAL	20	100%

Source: Elaborated by the authors

Several behaviors are identified in our study. In fact, 85% of those audited declare that the internal auditor is very well accepted and warmly welcomed. Therefore, a very strong cooperation occurs between them. On the other hand, 15% of those audited rate the internal audit very moderately, sometimes cooperating and disengaging other

times. According to the director of internal audit, this can be justified, but partially, by the fact that the attributions and the role of internal audit are not or poorly understood, despite the sufficient dissemination of the audit charter in the operational.

In general, the collaboration and cooperation between the internal auditor and the auditees has been developed. The forms of cooperation that materialize between the auditees and the internal auditor in this COMPANY are in the most basic form, represented by the preparatory work and can reach the most advanced form; namely self-assessment.

At the end of this paragraph, which deals with the relationship between corporate performance and internal audit, all the direct indicators, as presented, interpreted and analyzed above, are significant. These results make it possible to say that the internal audit through its recommendations has a positive impact on the performance of this COMPANY, since the quantitative and qualitative benefits that can result from it and largely exceed the costs of management. These findings are corroborated by a set of indirect indicators which stipulate that the internal auditor is accepted, requested by the operational staff and managers within this COMPANY, to deal with the problems, inconsistencies and malfunctions which arise or which may arise during operation.

4. Conclusion

The objective of this article was to test whether there is a relationship between the strong integration of internal audit and corporate performance. Indeed, after collecting data from our sample and processing it, we were able to demonstrate and validate the relationship between internal audit and performance. In this sense, the concept of "corporate performance" is operationalized through a set of indicators. These include direct indicators and indirect indicators. The first include all the elements that make it possible to judge more or less directly the contribution of internal audit to performance. On the other hand, the latter allow it indirectly, thus corroborating the former.

By reading and analyzing of these indicators, the relationship between internal audit and corporate performance is confirmed as already analyzed in the second chapter. Indeed, the contribution of the internal audit in the improvement of the quality, the production, the strategy, the relations with the various partners, the management of the supplies, the stocks of the material and the human resources is practically noted. . Similarly, it was recognized, on the one hand, that the recommendations of the internal audit have played an important role in terms of protection against risks and disasters and have made it possible to increase the turnover, and consequently the result, and on the other hand, the professionalism of the auditors plays an important role in this search for efficiency.

A good auditor is the one who makes relevant observations, constructive and precise recommendations, and also the person who knows and rigorously applies professional standards and contributes to the efficiency of the function.

The relationship between internal audit and performance is stronger the higher the level of internal audit practiced. Indeed, this COMPANY has a very strong degree of integration of the internal audit function, because it benefits much more widely from the recommendations of the internal audit than the other companies which are at the bottom of the scale in matter of this practice. Although in general, the auditor is seen as a man of numbers and control, there are companies whose degree of integration of internal audit is developed recognize that the auditor is an important partner in terms of advice. .

To conclude, all the results presented above confirm that there is a relationship between the practice of internal audit and corporate performance. And as a result, internal audit is increasingly recognized as an agent of change and an agent of the quality of key business decisions. It is also considered a strong contributor to the achievement of the organization's objectives and, therefore, is increasingly asserting itself as a value-added function.

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