Unlocking the Critical Drivers Affecting Quality of Internal Audit Consulting Services

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ABSTRACT

This study analysed how management support, organisational status, culture, data analytics, continuous audit, auditor independence, and internal auditor skills and competencies affect the quality of internal audit consulting services (CS) in risk management and strategy development. A survey was conducted among internal auditors (head, senior manager, manager) and customers (CEO, audit committee, CFO, manager, senior manager) of Bangladeshi listed companies. The survey data was analysed using SPSS and Smart-PLS4 software. Results showed that management support, organisational status, culture, data analytics, continuous audit, and internal auditors' skills and competencies had a positive correlation with CS quality, except for auditor independence. This research contributes to the limited research on CS quality factors and provides a guide for practitioners and researchers to improve the quality of internal audit functions in risk management and strategy development.

Keywords: Internal Audit, Internal Auditors, Consulting Services, Risks Management, Strategy Development

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INTRODUCTION

As the business landscape evolves, companies are increasingly seeking internal audit (IA) advice on risk management (RM) and strategy development (SD) to stay proactive and strategic. With technological advancements, regulatory changes, and global uncertainties, it has become crucial to manage risks and strategies effectively. PwC's research shows that 79% of CEOs are concerned about growth threats, highlighting the importance of RM (PwC, 2021). The World Economic Forum's Global Risks Report also emphasised the dynamic nature of risks, from cyber threats to geopolitical tensions, requiring organisations to adapt resilience strategies (World Economic Forum, 2021). The Institute of Internal Auditors (IIA) has stressed that organisations view internal audit functions (IAF) as crucial function to overseeing RM and strategic decision-making (IIA, 2018). As business environments change, IAF that provide RM and SD insights become increasingly important for organisational success and sustainability. Hence, IA plays a crucial role as a "provider of knowledge" in ensuring the achievement of business objectives (Shahimi & Mahzan, 2018). The IA is well-positioned to provide advice for SD and RM (Jiang et al., 2020).

According to the International Standards for the Professional Practice of Internal Auditing (ISPPIA) (2017), the quality of IA can be affected by both organisational and individual factors. Factors such as management support, which provides adequate resources and budget to IAF, organisational status, which influences the implementation of IA recommendations, and organisational culture, which sets the tone for IA work, have been shown to impact the quality of IA. The use of data analytics (DA) and continuous audit can help improve the quality of IA work (Barr-Pulliam, 2017; Betti et al., 2024; Tang et al., 2017). Additionally, IA expertise and independence are crucial in ensuring high-quality IAF (Alzeban, 2018; George et al., 2015).

Previous research has indicated that IA consulting services can have a positive impact on a business's performance. However, according to Eulerich (2022), the advisory component of IA consulting has been largely ignored in IA literature. Many of the factors that affect the quality of IAF in RM and SD are still unknown. As a result, Jiang et al. (2020) suggest that investigating this topic empirically is necessary. Hence, this study attempted to determine the primary drivers influencing the quality of internal audit

consulting services in risk management and strategy development. The following sections contain the literature review, hypotheses development, methodology, findings, and conclusion of this study.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

IAF Quality

The work of IA is vital to the success of a company. Therefore, IA must prove their value to an organisation by providing comprehensive support on companies' RM and decision-making for SD (Garven & Scarlata, 2020). Endaya and Hanefah (2013) suggested that advice from internal auditors regarding RM can improve an organization's ability to handle internal and external risks, leading to the achievement of business objectives. Additionally, IA evaluations of recruitment efficiency, human resource management, and IT operating systems can help an organisation make strategic management decisions to achieve its business goals (Raiborn et al., 2017).

According to ISPPIA (2017), Standards 1110-1, IA needs management support to ensure they can perform their consulting duties effectively. Research has shown that management support positively correlates with IAF quality (Getie Mihret, 2007; Selim et al., 2009). Al-Akra et al. (2016) found that organisational status affects IA user satisfaction. Jiang et al. (2020) found that organisational culture helped IA provide high-quality CS. PwC (2018) suggested that DA is needed for proactive RM. Similarly, Davidson et al. (2013) suggested that continuous auditing allowed IA to quickly analyse complex transactions to prevent irregularities. Therefore, ISPPIA (2017) requires skilled, knowledgeable, and independent IA to ensure high-quality CS.

This study utilised the Resource-Based View (RBV) theory to investigate the factors that affect CS quality. According to this theory, a company's competitive advantage depends on its internal resources (Barney, 1991). The RBV theory provides insights into how the IAF can be viewed as a strategic internal resource and capability that can be used to achieve

a company's competitive advantage. This study examines the relationship between CS quality, in terms of RM and SD, and the capability of internal resources, i.e. IA, in relation to management support, organisational status, culture, DA, continuous auditing, auditor independence, and auditor skills and competencies.

Management Support

It has been suggested by various studies that management support is crucial for the quality of IAF. Alzeban and Gwilliam (2014) found that positive management support affects IAF quality. Sulaiman et al. (2022) argued that management support affects the implementation of IA recommendations and resource allocation. Baharud-din et al. (2014) discovered that management support is necessary for IAF quality, while a lack of it could result in a reduced IA budget, a lack of resources and training, and thus lower quality (Abu-Azza, 2012). Additionally, Sawan (2013) documented that IA may struggle without management support due to limited access to records and documentation. According to the RBV theory, IA is considered an important internal resource that can fully realise its capabilities with adequate support from management (Alkebsi & Aziz, 2018). Based on these findings, it can be hypothesised that management support is a critical factor influencing the quality of IAF. Thus, this study proposed the following hypothesis:

H1: There is a positive relationship between management support and the quality of internal audit consulting services.

Organisational Status

The internal auditors' scope of practice is influenced by the organisational status of the IAF. This expands their ability to report effectively to management, enabling the company to achieve its desired goals (Madawaki et al., 2022). According to Kabuye (2017), the IA position or status in the organisation plays a crucial role in improving anti-fraud measures, enabling them to provide strategic advice to control fraud cases. The organisational status of the IA also shapes the company's strategy and reduces its operational risk (El-Sayed Ebaid, 2011). IAF's organisational status is considered an internal resource according to the RBV paradigm.

This status signifies a distinctive and strategic position of the IAF. Thus, this study proposed the following hypothesis:

H2: There is a positive correlation between organisational status and the quality of internal audit consulting services.

Organisational Culture

The organisational culture is a vital internal resource that influences a company's performance. Research indicates that culture strongly impacts the aspirations, professionalism, and work performance of employees (Abdolmohammadi & Sarens, 2011; Alzeban, 2015). Shahimi and Mahzan (2018) discovered a positive correlation between monitoring corporate culture and a company's performance. In this context, internal auditors can provide valuable advice to management regarding strategic decisions due to their in-depth understanding of the company's culture. Dicle and Usluer (2016) found that internal auditors perform best when they comprehend the company culture. Internal auditors are knowledgeable about the company's culture and risks, which helps the management address business challenges (Jiang et al., 2020). Organisational culture can provide a competitive advantage by promoting a unified identity and influencing employees' conduct to support the company's strategic goals. The RBV highlights that these distinctive and important internal resources are challenging for competitors. Thus, this study proposed the following hypothesis:

H3: There is a positive correlation between organisational culture and the quality of internal audit consulting services.

Data Analytics

DA is regarded as an important internal resources or tools of audit methodology that can improve IAF work. DA is expected to boost IA efficiency and productivity, and help IA to gain strategic insights by integrating and managing structured and unstructured data from internal and external sources (Betti et al., 2021; Mariani & Wamba, 2020). DA can also help IA adopt a risk-based approach by undertaking risk assessment, simulation, and statistical sampling during planning and implementation. It aids large-scale testing, fraud detection, and risk assessment (Li et al.,

2018). The RBV theory highlights the importance of strategically utilising resources to gain a competitive advantage. DA capabilities are internal resources that can provide strategic value to the company by enabling data-driven decisions about risk management and strategic insights. Based on this, the following hypothesis was proposed:

H4: There is a positive correlation between DA and the quality of internal audit consulting services.

Continuous Audit

Internal auditors perform continuous audits on a company's financial statements and other aspects of its operations and performance throughout the year. This makes IA a crucial internal resource for an organisation. Continuous audit speeds up the analysis of critical business transactions, preventing material misstatements from entering the accounting system and detecting abnormalities faster (Davidson et al., 2013). Continuous audit tools can help IA categorise business processes, statistically analyse transactions and track risk growth (Vasarhelyi et al., 2012). Continuous audit refers to the procedures that govern the collection, analysis, and utilisation of data in an ongoing audit setting. Consistent with the RBV theory paradigm, well-structured organisational processes serve as internal resources that enable an organisation to gain a competitive edge, including in areas like risk management and strategy formulation. Thus, the following hypothesis was proposed:

H5: There is a positive correlation between continuous audit and the quality of internal audit consulting services.

Auditor Independence (AI)

According to Kovács (2022), it is important for IA to be independent. Independent IA are those that are "free from conditions that threaten the ability to carry out IA responsibilities impartially" (IIA, 2017, p. 4). Selim et al. (2009) found that independent IA can enhance corporate sustainability. Internal auditors can advise management on business expansion and risks reduction more effectively when they are independent. Shahimi and Mahzan (2018) emphasised that internal auditors can provide valuable CS

if they adhere to core principles such as independence. According to RBV theory, the independence of internal auditors is essential 'internal asset' as it enhances the value, scarcity, and uniqueness of their position and contributions. The following hypothesis was proposed:

H6: There is a positive correlation between auditor independence and the quality of internal audit consulting services.

Internal Auditor Skills and Competencies (IASC)

The Standards 1210 of ISPPIA (2017) stated that internal auditors must have the necessary knowledge, skills, and competencies to perform their professional duties effectively. Internal auditors need to have a profound comprehension of risk, fraud, technology, and control in order to offer relevant guidance to management. Hence, IA is considered to possess distinctive and strategically significant resources that can help an organisation accomplish its business goals. Research has demonstrated that internal auditors' skills and competencies have a significant impact on consulting performance (Getie Mihret, 2007; Head et al., 2010; PwC, 2014). As per the RBV theory, internal auditors have specialised skills and competences that serve as internal resources for risk management and control assessment. These abilities are important since they allow auditors to efficiently recognise risks, evaluate controls, and suggest enhancements for organisational strategy. This study proposes the following hypothesis:

H7: There is a positive correlation between auditors' skills and competencies and the quality of internal audit consulting services.

METHODOLOGY

This study explored the connection between exogenous and endogenous variables using a survey questionnaire to determine latent constructs and participant information. All latent variables were ranked on a 7-point Likert scale based on a previous study (see Table 1). Data was gathered from internal auditors and customers of internal audit at publicly traded companies in Bangladesh, with pre-testing conducted by three academics and two industry experts (Jansen & Hak, 2005). The participants in this

study included individuals holding positions such as chief executive officer, member of audit committee, chief financial officer, head of internal audit, manager, and senior management of the internal audit department. Pre-testing feedback led to the splitting and merging of some questionnaire items. Purposive sampling was used because not all employees have knowledge of IA. The hypothesis was tested using Smart-PLS.

Table 1: Constructs Measurement

Construct	No. of items	Sources
Senior management support (SMS)	9	Ma'Ayan and Carmeli (2016)
Organisational status (OS)	7	Kabuye (2017)
Organisational culture (OC)	5	Alzeban (2015)
Data analytics (DA)	7	Li et al. (2018)
Continuous audit (CA)	7	Marx (2009)
Auditor independence (AI)	7	Alzeban and Gwilliam (2014)
Skills and competencies (SC)	9	Kabuye (2017)
Risk management (RM)	7	IIA (2004)
Strategy development (SD)	5	Melville (2003)

A total of 225 responses were collected, out of which only 153 were required for the study. With the power of 0.80, the suggested f-squared value was 0.15, and only seven predictors were allowed at the most. The sufficiency and significance of this sample size were determined using G*Power (version 3.1.9.2) (Hair et al., 2015). The survey had 77.8% male and 22.2% female participants. 82.2% of the participants had degrees and 6 years of business experience.

Common Method Bias (CMB) verification involves the use of procedural and statistical methods to ensure that the data collected is not biased (Podsakoff, 2003). In the procedural method, psychographic variables are temporarily separated from the independent and dependent variables. In the statistical approach, a marker variable (MV) is used, which includes four items that represent "resistance to change in mind" (Chin et al., 2013). The latent construct-MV estimates were all below 10%. After this step, Harman's single-factor test was performed. The results showed that only 42.5% of the variance was explained, indicating that there were no CMB issues found (Fuller et al., 2016).

MEASUREMENT MODEL ANALYSIS

This study met the construct reliability, convergent validity, and discriminant validity criteria set by Hair et al. (2020) (see Table 2). To assess construct reliability, the researchers considered the composite reliability (CR) and item loadings. After removing lower-loading items and rerunning the PLS-algorithm, all items' outer loading values were found to exceed the recommended threshold of 0.70.

Table 2: Reliability and Convergent Validity

Construct	Items	Outer Loading	CR	AVE	Construct	Items	Outer Loading	CR	AVE
Senior management support (SMS)	SMS1	0.785	0.927	0.612	Data analytics (DA)	DA1	0.806	0.925	0.639
	SMS2	0.792				DA2	0.807		
	SMS3	0.752				DA3	0.794		
	SMS4	0.732				DA4	0.771		
	SMS5	0.798				DA5	0.782		
	SMS6	0.811				DA6	0.818		
	SMS7	0.811				DA7	0.817		
	SMS8	0.776							
Organisational status (OS)	OS1	0.757	0.916	0.61	Internal auditors' skills and competencies (IASC)	IASC1	0.772		
	OS2	0.809				IASC2	0.776		
	OS3	0.771				IASC3	0.760	0.912	0.597
	OS4	0.813				IASC4	0.825		
	OS5	0.792				IASC5	0.779		
	OS6	0.757				IASC6	0.770		
	OS7	0.767				IASC7	0.724		
Organisational culture	OC1	0.828	0.914	0.68	Strategy development (SD)	SD1	0.826		
	OC2	0.836				SD2	0.837	0.913	0.677
	OC3	0.831				SD3	0.841		
	OC4	0.783				SD4	0.781		
	OC5	0.845				SD5	0.829		
Auditor independence (AI)	AI1	0.806			Continuous auditing (CA)	CA1	0.776		
	AI2	0.801	0.904	0.61		CA2	0.770	0.899	0.597
	AI3	0.765				CA4	0.733		
	AI4	0.792				CA5	0.779		
	AI5	0.771				CA6	0.779		
	AI7	0.752				CA7	0.798		
Risk management (RM)	RM1	0.830							
	RM3	0.843	0.898	0.688					
	RM6	0.806							
	RM7	0.838							

Additionally, all CR values exceeded the recommended threshold of 0.70. To confirm convergence, the researchers used the average variance extracted (AVE) which should be at least 0.50 (Fornell & Larcker, 1981). In this study, CS were represented by a higher-order construct that included reflective first- and second-order factors representing RM and SD. This study used latent variable scores to determine reliability and validity in two steps (Sarstedt et al., 2019). The AVE and CR values of RM and SD were 0.819 and 0.843, respectively, which confirmed second-order convergent validity. Additionally, RM and SD had outer loadings of 0.91 and 0.92, respectively (see Table 3).

Table 3: Factor Loading, Reliability and AVE for Higher-Order Construct

	Outer Loading	Alpha	CR	AVE
RM<-Consulting Services	0.910	0.814	0.843	0.819
SD<-Consulting Services	0.926			

To assess discriminant validity, two methods were used. The first method was the Fornell-Larker criterion, which states that the square root of each latent variable's Average Variance Extracted (AVE) should be greater than the correlations with other variables (Fornell & Larcker, 1981). In this study, the square roots of all AVEs exceeded both their corresponding row and column values (see Table 4). The second method was the Heterotrait-Monotrait (HTMT) ratio, which showed that all values were below the recommended threshold of 0.90, confirming discriminant validity (see Table 5).

Table 4: Fornell-Larcker Criterion

	AI	CA	DA	IASC	OC	OS	RM	SD	SMS
AI	0.781								
CA	0.535	0.773							
DA	0.505	0.761	0.799						
IASC	0.646	0.576	0.531	0.773					
OC	0.522	0.628	0.616	0.588	0.825				
OS	0.557	0.547	0.530	0.582	0.598	0.781			
RM	0.516	0.605	0.600	0.548	0.613	0.546	0.829		
SD	0.573	0.670	0.642	0.649	0.643	0.633	0.686	0.823	
SMS	0.499	0.563	0.542	0.589	0.590	0.695	0.586	0.599	0.782

Table 5: Heterotrait-Monotrait Ratio (HTMT)

	AI	CA	DA	IASC	OC	OS	RM	SD	SMS
AI									
CA	0.613								
DA	0.568	0.858							
IASC	0.731	0.653	0.590						
OC	0.592	0.715	0.685	0.661					
OS	0.630	0.619	0.583	0.645	0.673				
RM	0.596	0.703	0.678	0.627	0.705	0.616			
SD	0.654	0.764	0.714	0.727	0.728	0.709	0.792		
SMS	0.559	0.629	0.592	0.652	0.657	0.765	0.661	0.665	

STRUCTURAL MODEL ANALYSIS

According to Hair et al. (2015), the R^2 values of 0.75, 0.50 and 0.25 for endogenous latent variables indicating substantial, moderate and weak explanatory power. The R^2 value of 0.667 indicates that the model has significant explanatory power. When the exogenous variable is removed from the model, f^2 represents the change in R^2. Cohen (1988) suggests that an effect size (f^2) greater than 0.02 is small, greater than 0.15 is medium, and greater than 0.35 is large. In Table 6, the f^2 values ranged from 0.013 to 0.049, indicating a weak effect size. However, the Q^2 value indicates the predictive power of the dependent variables. According to Hair et al. (2015), an effect should have a predictive relevance of 0.02 (weak), 0.15 (moderate), or 0.35 (strong). Table 6 indicates a strong predictive relevance of dependent variables with a Q^2 value of 0.542.

Table 6: Explanatory Power Analysis

Outcomes	R^2	Q^2	f^2						
			SMS	OS	OC	DA	CA	AI	IASC
Consulting services	0.667	0.641	0.022	0.019	0.049	0.033	0.035	0.013	0.030

VIF is a measure of multicollinearity, where values greater than 5 indicate multicollinearity (Hair et al., 2019). This study had no multicollinearity issues because all VIF values were below 5 (see Table 7).

Table 7: Path Coefficient

Hypothesis	Path	Beta (β)	Supported	T-statistics	P-values	95% BCa CI	VIF
H1	SMS -> CS	0.128	Yes	2.301	0.011	[0.04;0.222]	2.308
H2	OS -> CS	0.119	Yes	2.131	0.017	[0.028;0.211]	2.357
H3	OC -> CS	0.187	Yes	2.816	0.002	[0.084;0.302]	2.195
H4	DA -> CS	0.168	Yes	2.512	0.006	[0.056;0.277]	2.637
H5	CA -> CS	0.180	Yes	2.235	0.013	[0.053;0.318]	2.832
H6	AI -> CS	0.090	No	1.491	0.068	[-0.008;0.189]	1.962
H7	IASC -> CS	0.149	Yes	2.122	0.017	[0.038;0.267]	2.261

Table 7 provides an explanation of the results obtained from the path coefficient using 10,000 bootstrapping. The analysis showed that management support had a positive and significant impact on CS. The value of β was found to be 0.128, t-value was 2.301, and p-value was 0.011. The 95% BCa CI was [0.04; 0.222], and this confidence interval did not include zero within its upper and lower bounds. This meant that all hypotheses were supported. On the other hand, auditor independence was not found to be a statistically significant predictor of CS. The value of β was 0.090, t-value was 1.491, and p-value was 0.068. The 95% BCa CI was [-0.008; 0.189], and this confidence interval contained zero within its upper and lower bounds. This indicated that the result did not represent a statistically significant positive association, and thus hypothesis H5 was not supported. Figure 1 displays the graphical output of the inner models.
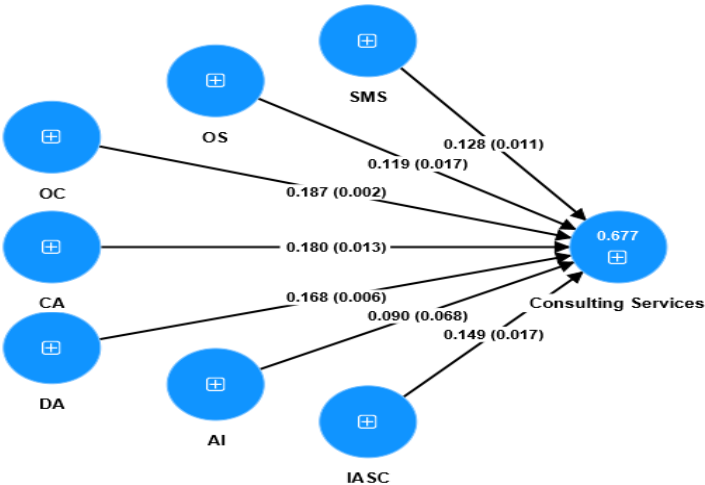

Figure 1: Graphical Output of Inner and Outer Models

DISCUSSION

There are several factors that have a positive correlation with the quality of CS in an organisation. These factors encompass management support, organisational status, culture, DA, continuous audit, and internal auditors' skills and competencies, and independences. Likewise, the provision of high-quality CS is impacted by the presence of training and development programmes and sufficient budget allocated by the management. Thus, senior management support for the IAF is a crucial internal resource that enhances organisational performance. Cohen et al. (2010) also suggest that senior management should help the IA department to obtain more resources to perform its work effectively.

The findings indicated that the quality of corporate strategy had improved due to the organisational status of IA. The "IIA's Statement of Responsibilities" states that the organisational status of the IA greatly impacted its scope and value. IA is well-suited for providing RM and strategic advice for SD. Organisational status helps IA evaluate strategic decision-making and management actions, as per Roth's research in 2003. Moreover, Kabuye's study in 2017 demonstrated that the organisational status of the IAF influenced its ability to measure fraud that enabling internal auditors to advise management on RM. Additionally, this study found that organisational culture had the most significant impact on CS. In a culture with reduced power distances, internal auditors can quickly obtain all the information they need to provide better CS, thereby increasing its quality. IA can offer RM advisory services and add value through diverse strategic advice for SD in an organisational culture with less power distance, more freedom, and individuality, as per Alqaraleh et al. (2022).

The results showed that there was a positive and significant relationship between DA and CS quality. The RBV theory suggested that DA serve as an internal resource that can influence IAF outcomes. DA can help in identifying potential irregularities in business transactions and analyse past business activities. Betti et al. (2024) found that DA improved IA efficiency, quality, and analytic capability, which led to better strategic advice for management for their SD. Li et al. (2018) stated that DA is a valuable audit tool for internal auditors to employ when doing consulting services in RM.

The study found that the relationship between continuous auditing and CS was positive and statistically significant. The use of continuous audit allows internal auditors to assist management on strategy development. Gangolly (2016) discovered that continuous audits enabled internal auditors to provide guidance on control, risks management and detect instances of non-compliance and anomalies. The insights gained from continuous auditing also supported strategic goals of companies (Prakoso & Khudri, 2022).

There was no correlation found between auditor independence and CS. Internal auditors were not required to maintain neutrality when offering CS. Ahmad and Taylor (2009) contended that the dedication of internal auditors to independence did not influence the quality of CS. The IIA views the IAF as an independent and value-adding consultant. In contrast, Internal auditors possessing the required skills and competencies can provide high-quality CS. Internal auditors have robust analytical skills that allow them to analyse intricate issues, pinpoint underlying causes, and create effective solutions for an organisation. These skills are crucial for giving comprehensive assessments of business risks and offering strategic improvement recommendations in the field of CS. Internal auditors frequently possess in-depth understanding of the industry in which their organisation functions. Their experience enables them to offer customised CS that considers industry-specific risks and trends, leading to strategic growth. This supports Getie Mihret's (2007) assertion that proficient and capable internal auditors may guarantee the quality of their service. White (2007) also proposed necessary skills and competences for ensuring the quality of CS. Fourie et al. (2013) proposed that internal auditors should possess proficient skills, particularly in governance, human relations, and business management, to enhance RM.

CONCLUSION

This study has identified the key factors that affect internal auditor's RM and SD of CS. The organisational culture, especially when it comes to lower power distances, has a direct impact on CS. This suggests that organisational empowerment and communication are necessary to enhance IA's impact. Continuous audit and DA methods have significantly improved

CS by quickly identifying and resolving control, compliance, and exception issues, supporting strategic advice and business development. The study has emphasised the importance of internal auditors' skills and competencies, highlighting that expert auditors contribute to improve management's RM and SD. Contrary to conventional wisdom, the study has challenged the notion that auditor independence is a driving factor for CS. It suggests that IA may not require impartiality for effective consulting. This raises questions about the perceived necessity of IA independence, particularly in advisory services.

The findings indicated several ways to optimise the IAF. Firstly, it is crucial to encourage employees, including internal auditors, to speak up and take charge by fostering empowerment and open communication. Secondly, enhancing organisational culture has a positive impact on consulting, and IA departments should consider adopting continuous auditing approaches and DA tools and training to improve efficiency and quality. Thirdly, investing in training and development is essential for improving the skills of internal auditors, a critical aspect for valuable consulting. Lastly, recognising IAF for evaluating strategic decision-making and management actions enhances RM and SD.

This study has some limitations. Firstly, adhering to the RBV theory, it focused solely on internal resources influencing CS, overlooking potential impacts from external factors like government regulations and national culture. Additionally, the study exclusively examined CS drivers in governed and regulated listed companies, warranting consideration for private limited firms and non-profit organizations with an IAF. Thirdly, the findings are specific to Bangladesh's recent economic development context, necessitating future studies to explore CS drivers in other developing countries for generalizable insights. Lastly, incorporating qualitative research methods, such as interviews and case studies, could offer a dynamic understanding of how various factors influence CS.

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