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Internal Audit and Added Value: What is the Relationship? Literature Review

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Abstract In the current economic context marked by the relentlessness of the competition, the internal auditor is often called upon to put his skills at the service of organizations in order to control risks and evaluate internal control systems. Consequently, he contributes to the creation of value. The purpose of this paper is to analyze the theoretical foundations of internal auditing and their relationship with the value creation for organizations. Through a literature review on the contribution of internal audit to value creation, we found that the results of the majority of these papers supported a positively significant relationship. However, by conducting a critical analysis of models used, we demonstrated the methodological limitations that may bias these results. As a result, we have listed the limitations of traditional indicators of value creation (Return on Assets, Return on Equity, discounted cash flows, among others); thus, we have argued the superiority of the Economic Value Added (EVA), as a measure indicator of value creation through the inclusion of the cost of capital in its structure. Following these well-founded results, a subsequent study will be conducted to empirically test the contribution of internal auditing to value creation by integrating EVA as a measure of value creation.

Keywords Internal Audit, Added Value, Added Value Indicator, EVA

1. Introduction

In a dynamic and competitive environment, the resources available to companies must be exploited in such a way as to create value for its owners and stakeholders. Nevertheless, creating value for shareholders implies offering a return higher than the cost of funds entrusted by the various investors [1]. From this point of view, value is only created when the company adopts an efficient governance system that promotes the achievement of its objectives. Corporate governance (CG) can be understood as "the set of mechanisms that have the effect of delimiting the powers and influencing the managers' decisions, in other words, that 'govern' their conduct and define their discretionary space" [2]. Thus, the CG calls upon mechanisms such as direct shareholder control via meetings, the board of directors, external audit, company committees (audit committee and others) and internal audit. In this framework, the internal audit, considered one of the pillars of the mechanisms of GE, allows an independent verification of the managers' decisions [3] and plays a crucial role in the evaluation of the internal control and risk management systems of the company in order to create value [4,5].

To this end, a number of research studies have demonstrated that indeed the internal audit function participates significantly in financial performance and added value [4-10]. Meanwhile, other researchers interested in the same issue have concluded that internal auditing does not make a significant contribution to added value for organizations [11-13].

In this context, we can ask the following question: To what extent can internal auditing be considered as a lever for added value for organizations?

Thus, we will first present the concept and methods for

measuring added value (section 1). Section 2 will then focus on the theoretical foundations of internal auditing. Section 3 will discuss the relationship between internal audit and added value. Finally, Section 4 will summarize and provide the conclusions of the article.

2. Concept and Methods of Measuring Added Value: Theoretical Approaches

2.1. Concept of Added Value

Despite the importance and frequency of using the concept of added value by researchers and practitioners, there is no consensus on its definition. Therefore, Frederick W. Taylor, a pioneer of the scientific organization of work, demonstrated at the beginning of the 20th century that the value created must be equitably shared between employers and workers [14]. Indeed, the notion of added value has often been seen from a purely financial perspective, according to Charreaux and Desbrières (1998), the value created is equal to the rent received by the shareholders in terms of rate [15]. The rent corresponds to what they perceive is beyond their opportunity cost, which is constituted by the cost of equity. This perception of the creation of value is oriented solely towards the shareholders, who represent the only residual creditors of the firm. In the same vein, Cappelletti and Khouatra (2004) define the creation of organizational value as the performance achieved by a company in terms of the quality of its management and its operation [16]. Therefore, added value results from a synergy between the quality of management and the internal functioning of the company, in which the internal audit can play a crucial role for both the manager and the other stakeholders [17,18]. From another point of view, Des Horts (2015) qualifies the creation of value to a positive relationship between the benefit derived from an activity, product or service and the cost incurred to perform or produce it [14]. In the same vein, Windsor (2017) shows that added value results from a surplus or gain in a person's well-being relative to a previous condition [19]. This value can be reflected in an increase in cash flow, income, wealth, or well-being.

In this context, the aspect of added value refers to the central question of the recipients of the value created: For whom the value is created [16]. At this stage, we can distinguish two visions of the recipients of the value creation, a shareholder vision and a broader one that represents the partnership vision. In fact, the literature in corporate finance has often focused on the creation of value from the shareholder's point of view. Accordingly, the managers of the company must act according to the objective of maximizing the wealth of the shareholders by creating value in their favor [16]. For this reason, the vision of shareholder value refers to a management philosophy that considers the maximization of the return on shareholders' equity as its most important objective.

On the other hand, this vision of the creation of value oriented only towards shareholders turns out to be incomplete. Indeed, the firm's strategic decisions have consequences for all stakeholders and consequently the value created must be distributed to all actors [15]. Except for this idea, Cappelletti and Khouatra (2004) highlight that to achieve a creation of shareholder value, it is imperative to satisfy customers with quality products, made by motivated employees, buying from the most interesting suppliers [16]. To this end, value is created for all the parties that make up the core of the firm, thus contributing to the added value chain. This enlarged conception of the value, includes the various partners of the organization, more especially as the creation of the value does not result only from the contribution of capital by the shareholders but from the combined efforts of all the partners [16].

Similarly, the notion of added value also refers to its purpose. Iacolare (2010) states that added value is not only the sole purpose of the company to satisfy its investors, but also represents the only way to truly and sustainably satisfy the other stakeholders of the company [20]. Indeed, creating value will have positive repercussions on all the stakeholders, which will provide a source of motivation to increase returns for employees and managers, but also to communicate the good health of the organization to external stakeholders. On the other hand, Cappelletti and Khouatra (2004) believe that the creation of value is a way to finance the development of the company and ensure its sustainability while gaining competitive advantages in the markets in which it operates [16]. Among others, Cherif and Dubreuille (2005) consider that the creation of value has a precise objective allowing satisfying the expectations of the various partners and more particularly of the financial markets [1]. While, Al-Matari *et al.,* (2014) assert that added value has an objective beyond enriching shareholders, which is to provide important and valuable information for monitoring progress and identifying problems [21]. Therefore, a company that shows inadequate results that negatively affect the value of the company "destroys value" and gives signals about problems in the company. Internal audit can play a central role in the added value process as it is able to provide operational and other information about the functioning of the internal control system to contribute to added value [22].

2.2. Methods of Value Creation

Due to the dramatic change in the corporate world and the separation of ownership and management, shareholders and managers are often looking for an economic framework that clearly reflects the value and performance of the organization [23]. The objective is to ensure an

optimal allocation of the organization's resources.

In this regard, measuring the value created by the company has far-reaching benefits. This measurement provides valuable information for management to monitor performance, report progress, improve motivation and communication, and identify problems [21]. Similarly, companies must be very careful in choosing their measurement tools that can significantly affect the management resources of each department in the organization [23]. Nevertheless, measurement methods of added value are fare from new: they have been developed through time by the researchers and practitioners under several approaches. According to Jakub *et al*., (2015) it was only after World War II that firms focused on value assessment using mainly discounted cash flows (DCF) [24], and are still used by practitioners to measure the intrinsic value (real value) of companies. However, the DCF has proven to be the main analysis tool, especially for project valuation, and not for the evaluation of company performance. This weakness of the DCF has motivated the emergence of new indicators to allow market players to assess the value of their companies, using ROA (Return on Assets), ROE (Return on Equity), ROS (Return on Sales), EPS (Earnings per Share), P/E (Price/Earnings), NP (Net Profit) etc. In the same vein, traditional valuation methods have been criticized because of their weakness in catching the different levels of value creation [25].

In this sense, Lehn and Makhija (1996) argue that traditional tools suffer from a major limitation as a measure of added value, as they ignore the cost of capital investments to generate profits [26]. Furthermore, Saulquin and Maupetit (2004) support the idea that traditional measures have the advantage of being easily obtained, but they are subject to manipulation [27]. For Sharma and Kumar (2012), the traditional measures used are often criticized, due to the fact that they are influenced by accounting rules and do not take into account the cost of capital [25]. Among others, Mamun and Mansor (2012) argue that accounting measures of profitability ignore the differences in risk-taking among firms in their pursuit of profits [23]. They argue that managers tend to manipulate reported accounting profits for their own benefit "Given that part of their compensation is based on this indicator" and choose alternative accounting procedures "switch from one inventory policy to another, change depreciation methods and recognize provisions..."

According to Mamun and Mansor (2012), even if a company generates a high net income and return on investment, it may not be able to contribute to the creation of shareholder value [23]. In this case, the earnings don't cover the required returns that the shareholder could obtain by investing in other securities that may have comparable risk.

Thus, new shareholder-oriented criteria for measuring the creation of corporate value have begun to emerge following the example of EVA -Economic Value Added- and MVA -Market Value Added- [24]. The EVA method, which has been developed by the American business consultant Stern Stewart and his company in 1989, was proposed to replace earnings or cash in the operations of measuring the creation of value and internal performance of companies [24,26].

However, the basic idea of EVA is not new. It is claimed that the origin of EVA goes back to Marshall (1890). Indeed, in the 1950s, the concept called "residual income" was used by General Electric as a performance measure. Thus, during the 1980s, Stewart added a series of accounting adjustments and revised the calculation of residual income [23]. At this point we could consider EVA as a residual value concept, i.e., after taking into account the cost of each resource used, the remaining surplus of income generated by the use of these resources becomes the measure of value added.

Indeed, EVA provides a significant advantage over conventional approaches. It is more strongly associated with stock returns than other measures [26]. It adds more informational content in explaining stock returns. It also reduces agency conflicts and improves decision making, due to the fact that it aligns owners' and managers' objectives [25]. Thus, it even avoids earnings manipulation. Moreover, it takes more comprehensively into account the firm's cost of capital [28]. In addition, EVA provides a comprehensive picture of the profits generated and the costs associated with generating them. Therefore, it becomes easier for a company to communicate its performance through a single measure rather than several.

Nevertheless, the idea of the supremacy of EVA, compared to traditional measures, as an indicator of added value and company performance, could be challenged. In this sense, Saulquin and Maupetit (2004) assume that EVA does not incorporate the notion of future cash flows in its structure [27]. Indeed, since EVA is based on the level of earnings for the current year, it favors projects with short payback periods and penalizes projects with longer time horizons, which may also be more profitable. Moreover, by studying the superiority of EVA on a sample of companies from the South African Stock Exchange, De Wet (2005) results show that EVA did not have the strongest correlation with market value, while traditional measures can better explain market value [29]. Among others, Sharma and Kumar (2012) confirm these same results in an Indian firm context [25].

Therefore, despite the multitude of empirical research works that have supported the supremacy of the EVA as an indicator of value creation measurement par excellence, but these results are not validated by all researchers and practitioners, which allows us to conclude the absence of a single and simple formula to measure value creation.

3. Theoretical Foundations of Internal Audit: Conceptual Approaches

3.1. Concept of Internal Audit

The internal audit function, as it is conceived today, goes back to the Great Depression in the United States in the 1930s. Companies heavily affected by the negative effects of the economic recession took the initiative of seconding a few executives with financial profiles to their external auditors. The objective was to reduce the amount of the audit firms' bill, since these seconded personnel performed subordinate tasks (auditing of accounts, inventories, etc.) that no longer had to be billed, and to retain personnel whose expertise could be strengthened by practicing the profession [30].

Subsequently, the business world has undergone rapid and revolutionary changes that have had a significant impact on organizations around the world. Under the fierce competition and the scope of risks, many companies have adopted various tools for more effective governance. In this context, it is not surprising that the internal audit function is considered the most qualified group of professionals to contribute to the establishment of good governance.

Indeed, the process of establishing good governance implies the need to control the organization's risks. At this stage, a model of three lines of control is implemented by the French Institute of Internal Audit and Control (IFACI 2013). This model is presented as follows: First, the company establishes internal control operating procedures put in place by operational management. The second line is made up of functional departments responsible for areas of expertise and functions dedicated to the animation of the overall risk control system. The third line is to intervene in the independent internal audit function, which is attached to the highest level of the organization, and which provides through a risk-based approach, an overall assurance to the supervisory bodies and the general management of the organization.

In this framework, Eden and Moriah (1996) state that internal audit is represented as a major control mechanism and provides verification of the adequacy of the effectiveness of the organization's other controls [4]. In addition, Ezejiofor and Okolocha (2020) and Ejoh and Ejom (2014) share the idea that internal auditing provides a basis for correcting deficiencies that have escaped the first and second line of defense before these deficiencies get out of control or are exposed in the external auditor's report [10, 11].

Nevertheless, unlike the notion of added value, internal auditing has a universal definition that is generally agreed upon by the researchers and practitioners thanks to the presence of an international body that ensures the defense of the function's interests and its development on a global scale. Indeed, the IIA (Institute of Internal Auditors) defines internal auditing as "an independent, objective activity that provides an organization with assurance about the state of control of its operations, provides advice for improvement, and contributes to the creation of value. It helps the organization to achieve its objectives by evaluating, through a systematic and methodical approach, its risk management, control, and governance processes and by making proposals to strengthen their effectiveness. From this definition, we can see that the internal audit function must effectively participate in the creation of value for organizations. Furthermore, the function is governed by principles that influence independence and objectivity, which are the pillars of a value-added audit.

The auditor's independence often refers to his or her reporting relationship to the audit committee and to management. Among other things, auditor independence can be represented as the auditor's ability to express conclusions honestly and impartially. On the other hand, his objectivity refers to his commitment to having an impartial attitude in the exercise of his work and to avoid any conflict of interest that could threaten it [30]. These two principles represent the pillars of a value-added audit. Their preservation and reinforcement allow internal audit entities to grow and to effectively participate in added value.

Within this framework, internal audit helps organizations to achieve their objectives, through several interventions, in particular in the framework of the evaluation of the internal control system, the formulation of opinion on the effectiveness of the use of capital [31], the contribution to the achievement of the objectives of the organization through its revelations and recommendations. Internal audit also plays an essential role in the decision-making process through its assurance and advisory missions on behalf of the governance bodies. In addition, the internal audit determines the reliability, reality and integrity of accounting and financial information, as well as operational information from different organizational units, on which decisions are made at all levels [32].

3.2. Foundations of Internal Audit

Based on the reflections and theoretical advances on internal auditing, the literature on corporate finance provides a theoretical foundation for the internal audit function based on the contractual current, and which supports the arguments that identify the role of internal auditing in the development and creation of value for organizations.

Agency Theory and Internal Audit

The modern form of organizations has given rise to a separation between ownership rights and decision-making power, resulting in an agency relationship. In this context, agency theory is based on the idea that managers must act in the interests of the company's shareholders. To this end,

the agency theory was developed by Jensen and Meckling (1976) [33]. According to these authors, an agency relationship is "a contract by which one or more persons (the principal) engage another person (the agent) to perform some task on his behalf that involves a delegation of some decision-making power to the agent. In order to preserve its interests, the principal uses mechanisms that generate agency costs (monitoring expenses, bond costs, residual loss)".

The agency theory places the holding of information and its sharing between contractors as the key of its analysis of the firm. The managers can pursue their own interests since they have more complete information than the owner "Information asymmetry". To this end, and with a view to solve the problem of information asymmetry, the shareholders exercise controls over the agent, through the establishment of incentive mechanisms for the disclosure of information. In this framework, the internal audit plays the role of a significant governance mechanism by providing benefits for both the owner and the agent. For the principal, the internal auditor participates in the reduction of the risk of fraud by the agents and allows the reliability of financial and operational information, more specifically, to ensure the effectiveness of the internal control system [34]. In return, officers benefit from the existence of internal auditing as it signals to owners that they are acting responsibly and in accordance with their employment contract. It also reduces the risk of principals making adverse adjustments to executive compensation [17].

Transaction Cost Theory and Internal Auditing

Based on the work of Coase (1937), who believes that, from an economic point of view, companies are distinguished from markets by their ability to internalize certain transactions and to carry them out at a lower cost than if they had taken place in the market [35]. Williamson (1985) formalized the costs of transactions by distinguishing between those that are prior to or after the conclusion of the transaction. Among other things, the firm can control its costs within the framework of this theory through an effective internal control [36]. Indeed, Spraakman (1997) supports the idea that internal auditing provides managers with more useful information to reduce costs, unlike the accounting and financial information provided by external auditing [22].

To improve the firm's internal control systems, the internal auditor can look for operational information instead of just financial ones. He can gather information not available to the external auditors, as employees and members of the organization, obtain easily the cooperation of other members of the organization, examine all operations and systems and gather through formal and informal means critical information about the organization and its activities. As a result, managers benefit in two ways from the operational findings of the internal audit under this theory. Firstly, the identification of internal control deficiencies. Secondly, the description of the internal control system. This information allows managers to understand and adjust operations in order to achieve additional savings [22].

Theory of Property Rights and Internal Audit

This theory seeks to understand the internal functioning of organizations based on the concept of property rights. It breaks down property rights into three main parts: Usus: the right to use the property, fructus: the right to collect the fruits of the property, and abusus: the right to decide on the fate of the property. According to this theory, the decomposition of the right of ownership in the hands of several people has the effect of reducing the efficiency of the firm. Indeed, only a manager who is also an owner can have an interest in reducing waste and improving efforts within his organization. In the case of the managerial firm, there is a separation between the management of the organization by the manager and the ownership of the firm by the shareholder. In this framework, the manager can only dispose of the usus while the fructus and abusus are owned by the owner, which can lead to conflicts of interest and become a source of inefficiency [37]. Applied to the topic of internal auditing, ownership rights manifest themselves through the transparency of financial information that must be revealed for the benefit of stakeholders and more specifically for the benefit of shareholders in order to display the performance of the company and to establish better strategic visibility for the board of directors and the governing body. In addition, the internal audit can help ensure that the use of properties is done in accordance with the directives of shareholders through its assurance and advisory missions [38].

Entrenchment Theory and Internal Audit

This theory assumes that actors develop strategies to maintain their place in the organization and to oust potential competitors. By doing so, they make their replacement costly for the organization to which they belong, which allows them to increase their power. Indeed, entrenchment reflects the manager's desire to free himself, at least partially, from shareholder control, in order to maintain his position, increase his freedom of action and/or maximize his rents. In this framework, we can consider the audit as legitimate insofar as its establishment allows us to delimit the discretionary power of the manager through the information that it brings back to the principals, allowing us to give a clear picture of the degree of rooting of the manager [38].

Indeed, according to these theoretical currents (agency theory, transaction cost theory, property rights theory and entrenchment theory) the raison d'être of the internal audit function is legitimate, because of its quality of defender of the interests of agents and principals, thanks to the reduction of informational asymmetries that persist at all levels of the organization. Moreover, from all these

readings, we have seen that the internal auditor has moved from being a simple accounting control to being a consultant auditor who responds to the expectations of the governance bodies on the major risks of the company. Furthermore, the internal auditor plays a decisive role in the added value process from the point of view of the theories of the firm; the auditor is a valuable source of information that provides insight into the robustness of internal control systems. It also resolves agency conflict and provides operational visibility for managers so that they can make improvements to operational procedures.

4. Internal Audit, a Leverage for Added Value

The current global economic emergency has prompted organizations to develop appropriate mechanisms to provide quality services that help organizations ensure their sustainability while delivering value to their shareholders. At this stage, internal auditing is one of the mechanisms that contribute to the creation of value for the entities. In this context, Eden and Moriah (1996) qualified internal audit as one of the major mechanisms that organizations use to help them control risks and internal processes [4]. Nevertheless, internal audit does not exist as a divine right, rather its raison d'être is its ability to generate value [5]. Indeed, the need to implement a function that consumes resources must have the objective of creating value, which is why, the IIA has included in its definition the notion of added value by internal audit departments, promoting organizations to achieve their objectives by assessing their internal control, risk management and governance systems. In this regard, Barac *et al*., (2009) emphasize the evolution of internal auditing, the shift from a traditional audit to a value-added audit [6]. This shift is mainly due to the evolution of the auditor's duties and the emergence of internal and external environments, the diversity of risks incurred which have led the internal auditor to develop from checking compliance with standards and rules to a role of assurance and advice. As a result, Ray (2009) places the internal audit function in the support activities in Porter's value chain to create value within the organization and contribute to the achievement of organizational goals [39]. This contribution to added value means that internal auditing must examine all departments in the company in detail to establish a comprehensive list of all malfunctions and deficiencies found within the organization [11,32]. In addition, the internal audit determines the reliability, reality and integrity of financial and operational information that come from different organizational units, on which appropriate strategic decisions at all levels of management are based [21].

Referring to the IIA definition, the internal audit function is presented as a main actor in the evaluation of corporate governance, its pioneering role allows correcting informational inefficiencies between the actors of corporate governance. Indeed, Mihret *et al*., (2010) assert that the internal audit function facilitates the proper functioning of the company, as it is a mechanism for improving internal governance processes [31]. In the same vein, Dianita (2015) believes that the presence of an independent internal auditor is crucial in the implementation of good corporate governance [12]. The independent internal auditor can be used to oversee the operation of the company to ensure that it has conducted operations with the objective of creating shareholder value. At this level, the internal auditor provides services to management and to the board of directors through the audit committee, and its essential role allows both management to correct malfunctions and create value, and the board of directors to gain insight into the company's operations and the degree of control over risks and operations [13].

Among others, Ezejiofor and Okolocha (2020) consider that the objective of internal auditing is to add value and improve the functioning of an organization by assisting and advising the management in the exercise of their responsibilities; it has become an indispensable management tool to ensure effective control [10].

In an empirical research setting, there is not much work done on the question of whether internal auditing contributes to added value. To this end, most researchers have focused on the problem of determining whether internal auditing actually contributes to financial performance.

4.1. Internal Audit and Financial Performance

The relationship between internal auditing and financial performance has been debated by several researchers who have either confirmed the role of internal auditing as a lever for added value and subsequently financial performance, and others who reject this finding. In this context, Eden and Moriah (1996) conducted an experiment to evaluate the contribution of internal audit to organizational effectiveness [4]. These authors randomly selected 224 bank branches subjected to experimental conditions (audited or not) and were able to monitor their performance for one year. Their results stated that the audited entities were able to achieve better performance, unlike their counterparts who were not audited. They concluded that internal auditing can improve the performance of the banks in question. Nevertheless, the results of the research cannot be generalized due to several limitations, including the fact that the research focused on banks and not on other industries. In addition, the variables used to measure performance are mainly based on management indicators (accounting result) and not on recent performance measures. In addition, Awdat (2015) identified the impact of the internal audit function to improve the financial performance of 13 Jordanian

commercial banks [41]. His study was based on a questionnaire "Likert scale" distributed to 65 auditors, the results showed that internal auditing can improve financial performance. The study is not without reservations, the author chose as a base of respondents, the internal auditors without being able to integrate the appreciation of the auditees who can better argue the added value of internal audit for their own operational departments. In the same vein, Alaswad and Stanišić (2016) highlighted the influence of internal audit on the performance of organizations in Libya [41]. The study was based on the impact of internal audit variables such as audit committee size, audit committee independence, auditor qualification and experience on financial performance measured by ROA. The study found that the relationship between the size of the internal audit committee and performance was statistically insignificant, while the other variables were significant with financial performance. This study is considered a benchmark on the issue of internal audit and financial performance but it faces several limitations. The study does not take into account all of the internal auditing characteristics listed in the existing literature that are agreed upon to make the internal audit function value-creating. Secondly, ROA cannot reflect financial performance; it is a simple indicator of profitability that does not integrate the cost of capital of the company.

Nevertheless, Alaswad and Stanišić (2016) assert that internal audit, through its recommendations reflects positively on financial performance, using a sample of 113 companies that operate in the financial and non-financial sector in the Republic of Serbia [42]. Alqadi (2017) conducted a similar study in a context of industrial companies listed on the Amman Stock Exchange, while focusing on criteria such as independence and objectivity of internal audit [8]. The study revealed a very strong relationship between the independence and objectivity of the internal auditor and its ability to monitor financial performance. Merkineh *et al.*, (2020) examined the quality of internal auditing and its impact on the performance of 43 sectoral public organizations in southern Ethiopia [9]. This study was based on the use of the goal attainment proxy to calculate the performance of the public sector, and the internal auditing variables such as independence, competence, standards, management support, and formal mandate of internal auditing. The study concluded that the characteristics of the internal audit function contributed significantly to public sector performance in Ethiopia.

In the same context, Tapang and Ibiam (2019) conducted a study on the role of internal audit as a lever for financial performance of microfinance banks in Nigeria [43]. Financial performance was measured by ROA and ROE while internal audit was measured by its ability to detect fraud. The results of this study led to the conclusion that internal auditing does contribute to fraud prevention and subsequently to the improvement of financial performance. Moreover, in the context of public companies, Boubakary (2020) analyzed the contribution of internal audit to the improvement of the performance of Cameroonian public companies [32]. Based on a sample of 80 companies, the researcher used a binomial logistic regression to test the variables specific to internal audit (the qualifications of the principal officer, size, qualification, level of experience and independence of the internal audit function) on the financial performance measured by a Likert 5-point scale. The results showed that the qualifications of the principal officer had no significant influence on performance, while the other variables had a positive and significant influence on performance.

However, other authors have overturned these findings. Indeed, Ejoh and Ejom (2014) sought to establish the relationship between the internal audit function and financial performance in higher education institutions in Nigeria [11]. The results of the study revealed that the internal audit departments of the institutions suffer from autonomy and independence from their managements. Furthermore, the study asserts that the internal audit function does not have a significant effect on financial performance. The study used 77 academic and non-academic staff from its higher education institutions to assert the ability of internal audit to contribute to financial performance. However, this approach does not include internal audit and auditee personnel in its methodology, as they may provide more accurate assessments of the effect of internal audit on financial performance. In addition, Dianita (2015) analyzed the impact of internal audit function and corporate governance on financial performance of listed banks in Indonesia [12]. The results confirmed that the internal auditor does not have a positive and significant influence on the financial performance of Indonesian banks. In a similar vein, Muchiri and Jagongo (2017) examined the effect of internal audit on the financial performance of a single large Kenyan firm, using ROI as the dependent variable and criteria related to the internal audit function as the independent variables [13]. The researchers found that the relationship between the existence of the internal audit function and financial performance was insignificant.

4.2. Internal Audit and Added Value

As a result of changing organizational needs, technology, and the complexity of businesses and systems, the nature of the services required of internal auditors has changed over the years from traditional compliance-based auditing to value-added auditing based on contributing to the reduction of risk exposure, participation in the achievement of objectives and operational improvement of the business through its assurance and advisory services.

The role of the internal auditor in the added value process of the company has not been the subject of much empirical study by researchers, as opposed to the topic of internal audit and financial performance. The first writings on the topic go back to Mihret and Woldeyohannis (2008) who decided to draw interpretations on how the attributes

of a value-added internal audit department would vary from one organization to another [44]. Using the case study methodology on a large state-owned company in Ethiopia that operates as the sole provider of telecommunications services in the country, the results of the study highlight that the attributes of a value-added internal audit service may be shaped by the risky nature of the environment in which the organization operates, so that in organizations that operate in high-risk environments, the internal audit consulting aspect may be sought after and encouraged. Furthermore, the study suggests key internal audit activities that could contribute significantly to the achievement of a value-added profile such as strategic planning and marketing of internal audit services. Thus, better marketing of internal auditing could facilitate the ability of internal auditors to develop a value-added profile through better cooperation among auditees and solicitation of increased support from management. However, this study has found its limitations in the unit of analysis examined, as we cannot claim a universal generalization of the results. In addition, the study did not take into account clear value-creation variables that could better explain the characteristics of internal auditing.

In addition, Barac et al. (2009) examined the characteristics of internal auditing (status of the internal audit function, staffing, work environment, recommendations implemented, risk management) and their contribution to added value in 30 South African publicly traded companies [6]. The added value proxy was measured by a questionnaire based on a Likert scale. The results of the study highlight that the internal audit function can be considered as a value adding function within their companies. The generalizability of these results may be questionable given the limited number of companies participating in the study.

Nevertheless, the study by Hajiha and Farhani (2012) stands out as the most comprehensive given the quality of the variables chosen to measure added value [7]. The objective of this research was to investigate the relationship between the existence of an internal audit unit and its qualifications on the creation of economic value added (EVA). The researcher selected 80 manufacturing companies listed in Tehran Stock Exchange between 2005 and 2009 as the sample, and independent variables were: existence of IA, age of IA, independence of IA, size of IA department, knowledge of internal auditors, their experience, and experience of IA department manager. The results of the research indicate that there is a positive and significant relationship between internal audit and added value in Iranian companies. The limitations observed on this research lie in not considering other industries, only manufacturing companies are considered, coupled with a lack of adjustments to calculate the EVA.

D'Onza, *et al*., (2015) were interested in exploring the potential contribution of internal audit activities to added value processes and identifying the key factors associated with these activities [5]. An analysis of the responses of more than 1800 internal auditors to questions is specifically designed to assess this contribution based on the 2010 CBOK Global Survey of the Internal Audit Profession. The survey found that four variables are positively associated with the value added by internal auditing: independence and objectivity, adherence to the Institute of Internal Auditors' Code of Ethics, internal auditing's contribution to assessing the effectiveness of internal control and its contribution to assessing the effectiveness of risk management. Among others, a number of limitations can be identified for this study. First, the approaches chosen to measure value added are based on the perceptions of survey participants, and respondents' perceptions may deviate from the realities of practice, or may be influenced by overly optimistic self-assessments by internal auditors. Second, this study did not examine all possible factors that influence internal auditing and its ability to create value.

Shahimi, et al. (2016) conducted a preliminary investigation into the nature and extent of consulting activity performed by internal auditors and their understanding of the factors influencing the implementation of such a role as a value add to the company [45]. The study looked at 13 publicly traded companies, one publicly funded university, and one for-profit professional organization in Malaysia. The findings showed that consulting activities are increasingly in demand from stakeholders and the significant role of the internal auditor's training, certification and prior experience as critical factors in creating value for organizations.

In the same framework, Newman and Comfort (2018) targeted 40 employees in leadership positions in the audit and finance department to study the role of the internal auditor in the added value process for a Zimbabwe-based hotel management company [46]. The main conclusion was that the internal audit function is positively associated with an organization's financial performance, its assurance and advisory role proved to be value-added. Internal audit characteristics were also tested in relation to organizational performance, internal audit size and competence/ experience appear to have a positive association, but internal audit qualification has a negative effect. This study relied on return on assets to calculate added value, which poses a major limitation for the study in that return on assets is not the ideal measure of added value.

5. Conclusions

In a competitive market, it is obvious to implement all prerogatives to manage and control the risks and internal control systems of each organization. In this context, the internal audit function presents itself as a major lever that can, through its assurance and advisory missions, help entities to increase and preserve value based on a risk-based approach. Nevertheless, internal auditing has its

theoretical foundation in the contractual stream of the firm, which supports arguments that identify the role of internal auditing in the development and creation of value for companies, such as agency theory, transaction costs, property rights and entrenchment. Based on these theoretical foundations, a multitude of research studies have focused on the contribution of internal audit to the creation of value for the organization.

The majority of the studies cited in this paper have used several characteristics of internal auditing to identify its role in leveraging added value, but this research is often based on criteria that do not reflect added value for the organization. The majority of studies use the perception of added value through a questionnaire based on a Likert scale or the use of profitability indicators such as ROA and ROI.

From this empirical research, we can estimate that internal audit is considered an important lever in the added value process for each organization. Through its missions and expertise, it formulates recommendations capable of changing the orientation of governance bodies with the ultimate goal of creating value.

This article was a conceptual introduction to the relationship between internal audit and added value. The next step would be an econometric test of the relevance of the link between internal audit characteristics and added value in the case of a panel of companies, taking into consideration the limitations of previous research as mentioned above.

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