

# The Influence of the Internal Audit Function Practices on Corporate Governance: The Case of State-Owned Enterprises in Tanzania

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## Abstract

*The purpose of this research paper was to investigate the influence of internal audit function (IAF) practices on corporate governance (CG) in Tanzanian State-Owned Enterprises (SOEs). Data were collected through a questionnaire targeting the board of directors, audit committee members, management members, and internal and external auditors of 86 SOEs in Tanzania. Overall, the findings indicate that the IAF significantly influences the CG of Tanzanian SOEs. Specifically, the findings reveal that an internal auditor's competence, nature of work and compliance with standards, laws and regulations positively influence CG in Tanzania. These results support the application of the agency theory (supplemented by stakeholders and public choice theories), which explains the role of the IAF and its influence on CG for the benefit of a broader range of stakeholders, including the public at large. The results of this study suggest that organisations that allocate sufficient resources and effectively utilise their IAF to provide assurance and advisory services may improve their CG. This improvement can lead to increased accountability and transparency in SOEs. The results have an implication for the decision-makers, policymakers and chief audit executives to effectively use IAFs in enhancing CG practices. The Institute of Internal Auditors (IIA) may benefit from these results in their efforts to elevate the impact of internal audit in the public sector.*

**Keywords:** Internal audit, Corporate governance, State-owned Enterprises, Tanzania.

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## **Introduction**

Over the past three decades, the world has witnessed an increase in several organisations' failures and corporate scandals resulting from CG issues (McLaughlin, Armstrong, Moustafa, & Elamer, 2021) in both private and SOEs. For example, Enron (2001), WorldCom (2002), FIFA Corruption (2015), Panama Papers (2016), and the failure of FTX (2022). Specific to SOEs, in 2019 a Romanian national airline experienced a scandal resulting from governance failure that, in the end, caused serious financial difficulties for the organisation (Dragomir, Dumitru, & Feleagă, 2021). These reported failures have raised significant concerns about corporate governance (Bédard & Gendron, 2010; Chambers, 2022), particularly the IAF for its failure to detect and report financial mismanagement and control failures. The failure of, for example, Enron, WorldCom in the United States (US) and a Romanian national airline in Europe confirmed the principal-agent relationship challenge, because the agents failed to execute their responsibility effectively for the interest of the principal (Dragomir et al., 2021; Hendrikse & Hefer, 2012).

Despite several measures taken by professional bodies, government and academicians to enhance corporate governance, failures continue (Hay, Stewart, & Botica Redmayne, 2017). For example, in 2015, South African SOEs, such as the South African Broadcasting Corporation (SABC) and South African Airways (SAA) experienced some governance challenges and were in the spotlight (Barlow, 2016). Likewise, Tanzanian SOEs have experienced several governance challenges related to inefficiencies, weak internal control systems, financial crises, procurement frauds, non-implementation of audit recommendations, repetitive audit findings, and misuse of office, as reported by the Controller and Auditor General in the annual audit reports (URT, 2018a, 2019, 2020, 2021, 2022). On the other hand, the IAF, as a critical CG tool, is expected to provide independent and objective assurance on governance, risk management and controls processes (IIA, 2017; Nerantzidis, Pazarskis, Drogalas, & Galanis, 2020). The assurance and advisory services provided by the internal audit function are drawn from the agency theory, which focuses on the separation of ownership and control (Jensen & Meckling, 1976) in order to protect the interest of the wider group of stakeholders, including the public at large (Christopher, 2019; Nerantzidis et al., 2020). Thus, the IAF plays a critical role in assisting management and those charged with governance to meet their accountability responsibilities.

Besides these key professional developments and key roles of the IAF in organisations, corporate failures continue, and the IAF has been blamed for not playing its monitoring function well (Kotb, Elbardan, & Halabi, 2020). Currently, internal audit has been seen as a root cause of all corporate failures. For example, in the Toshiba case, the IAF was alleged to have failed to perform its roles, which resulted in the collapse of Toshiba (Chambers, 2015). In Tanzania SOEs, when the annual audit reports are issued, the key and common question has been where the internal auditors were. Also, prior to these developments in the profession, it was rare to find an IAF being questioned about its role in misappropriation, fraud prevention and corporate failures (Christopher, 2019). Ongoing corporate failures and inefficiencies of corporates have continued to raise concerns about the performance gap of the IAF, which is defined as a failure of the IAF to address key strategic risks or to deliver the value as it should, according to the standards (Christopher, 2019; Kotb et al., 2020). This proposition on the theory and practice gap is also supported by the literature, that poor structures, quality and

the scope of the work of IAF are key contributors to the performance gap, which results in corporate failures (Christopher, 2019) and underperformance of SOEs.

From the few existing studies of IAF and CG, there is still limited knowledge of how the IAF contributes to enhancing CG (Arena & Azzone, 2009; Karagiorgos, Drogalas, Gotzamanis, & Tampakoudis, 2010; Kotb et al., 2020; Sarens & Abdolmohammadi, 2011b; Zain, Subramaniam, & Stewart, 2006). Kotb et al. (2020) reviewed 471 papers from 64 reputable journals published between 2005 and 2018 and found little knowledge about the contribution of IAFs to CG and overall business performance. Additionally, the majority of the studies have investigated IAF from the viewpoint of Heads of Internal Audit and Chief Audit Executives (Supply side) (Arena & Azzone, 2009; Mihret & Grant, 2017), which would contain some objectivity challenges. A few studies (Cohen & Sayag, 2010; Mat Zain, Zaman, & Mohamed, 2015) include the other stakeholders' viewpoints, such as management, the audit committee and the board.

Following the preceding arguments about the assurance and advisory roles of the IAFs in organisations, there seems to be a different level of quality of IAF from country to country and from organisation to organisation, and more studies on the matter focused more on developed economies, while the developing economies are largely ignored (Kotb et al., 2020). Previous literature shows that developed countries (DCs), such as the United Kingdom, the US, and Japan, have had several studies on IAF and CG (Joshi & Wakil, 2004). However, relatively few studies focus on less developing countries (LDCs) (Owolabi & Ogbechie, 2009), and even fewer on SOEs, focusing mainly on the effects of privatisation and commercialisation (Mbo & Adjasi, 2017a). While results and recommendations from empirical studies in DCs may be applicable to LDCs as well, they are more applicable in advanced economies and legal systems than in LDCs, where the basic processes of the IAF and CG are not well understood (Wong, 2004). Thus, SOEs in Tanzania provide an important context of IA, as SOEs dominate economic activities such as utility, transportation and infrastructure (URT, 2018b). Also, SOEs in Tanzania are required under the Public Finance Act 2022 to establish an internal audit department and report quarterly to the Internal Auditor General's office. Furthermore, due to the nature of their operations, SOEs face a number of governance challenges that essentially hinder their performance and raise doubts with the public when they fail to deliver. For instance, SOEs in Tanzania have experienced several governance challenges related to inefficiencies, weak internal control systems, procurement frauds, non-implementation of audit recommendations, and misuse of office, as reported by the Controller and Auditor General in the annual audit reports (URT, 2021, 2022).

Meanwhile, there exists a knowledge gap in the literature, as much less is known about the influence of the IAF on CG in LDCs' SOEs, particularly in Africa. Therefore, this study investigates the influence of the IAF on the CG of SOEs in Tanzania. The study makes an important contribution to this growing body of literature. The study also not only explores the influence of IAF practices, but also provides additional descriptive information on the use of internal audit to enhance sound CG practices in SOEs. The remainder of the paper is organised as follows. Section two presents a review of the literature on IA and CG and develops hypotheses. Section three describes the research methodology adopted. This is followed by the results in section four and the conclusion and implications in section five.

## **Literature Review**

### ***Corporate Governance***

Corporate governance does not have a universal definition that accommodates all diverse situations of CG. However, there are some institutions and scholars, such as Cadbury (1992), Rezaee, Olibe, and Minmier (2003); Solomon (2007), that have defined CG. According to Cadbury's report of 1992, corporate governance is defined as a process whereby organisations are managed and controlled (Cadbury, 1992). Consistent with the Cadbury definition, Rezaee et al. (2003) define CG as control mechanisms to protect shareholders' interests. The Cadbury (1992) and Rezaee et al. (2003) definition of CG emphasises the principal-agent relationships that aim to protect the interests of shareholders. Solomon (2007) further expanded the definition of corporate governance to include the process of checks and balances to ensure organisations perform their accountability roles and act in the best interest of the public. Hence, Solomon (2007) expands the definition of corporate governance to emphasise the importance of CG to a wide range of organisational stakeholders, such as policymakers, regulators, suppliers, staff and the public at large. From SOEs' perspective, stakeholders expect assurance about performance, both financial and operational, and overall management of entities; hence, there is a great demand for accountability and transparency.

### ***Internal Audit Function***

Internal audit has been defined by IIA as an independent, objective assurance and advisory function that is designed to add value and support the achievement of an organisation's objectives (IIA, 2017). The IAF supports an organisation in accomplishing its objectives by establishing a systematic, disciplined work approach to evaluate and enhance the effectiveness of the risk management, controls and governance processes (IIA, 2017; Sawyer & Riddle, 2012). The definition sets out important attributes/practices of IAF, such as the nature of work and performance, which among other practices, comprises competence requirements and compliance with standards and laws (Sawyer & Riddle, 2012).

IAF has increasingly become important in the CG environment over the recent three decades following increased failures of corporates (Christopher, 2019; Kotb et al., 2020; Oussii & Taktak, 2018; Stewart & Subramaniam, 2010; Turetken, Jethefer, & Ozkan, 2019). Historically, the IAF was perceived to be an internal business function in an organisation whose purpose was to prevent fraud from happening and to verify financial transactions with a backwards-looking focus (Kotb et al., 2020). However, the IAF role has evolved over time, and the current internal audit function performs a broad range of strategic activities other than financial audits, and it has become a valued partner in the organisation (Christopher, 2019). In addition, IAF is an important corporate governance tool that mitigates agency problems (Roussy & Perron, 2018) for multiple stakeholders with diverse objectives from private and public sectors, consistent with stakeholder and public choice theories. For instance, in the public sector, particularly SOEs, IA is expected to provide assurance to the government, regulators, public, board, management and others about risk, governance and controls in the use of public funds.

### ***State Owned Enterprises***

An SOE is defined as any enterprise established by the national law where the states control its ownership through a full ( 100%), majority (more than 50%), or a significant minority

(50%) and of which the main objective, or part of the objectives, is to carry out economic activities (OECD, 2015). Consistent with the OECD (2015), the Tanzania Public Corporations Act of 1992 defines an SOE as an entity established under the act or any other law where the government or its agent has majority ownership (fifty-one per cent or more of the shares ) (URT, 1992). SOEs operate in a unique environment with multiple objectives to achieve. Their ownership and control structure (Fama & Jensen, 1983) is also unique, and, hence, the investigation of the influence of IAF on corporate governance is necessary to consider the nature of SOEs.

### ***Theoretical Framework***

This study uses three theories, namely, agency, stakeholders, and public choice, theories. The agency theory is the primary theory of the study, and it is complemented by the other two theories (stakeholders and public choice theories). The agency theory explains that managers in organisations like SOEs will not act to maximise the returns to shareholders unless appropriate governance structures are implemented to safeguard the interests of shareholders (Fama & Jensen, 1983). Hence, the demand for internal audit function arises from agency costs because of the potential conflicts of interest between owners and managers (Jensen & Meckling, 1976). The theory explains the influence of internal audit practices, namely, competence, nature of work and compliance with standards, laws and regulations in monitoring management activities and assurance of management performance to shareholders (Colbert, 1988). The theory also explains the relationship that the internal audit function plays in enhancing an organisation's corporate governance (Fama, 1980). This theory explains only the relationship between the agent and the principal; hence, other stakeholders with different needs are considered by the stakeholders and public choice theories.

Stakeholder theory identifies, analyses, develops and manages strong coordination among the stakeholders (Freeman, 1984), not only shareholders or owners. Thus, the theory identifies the stakeholders to include external and internal individuals or groups who can affect, or are affected by, the actions and results of an organisation. The SOEs often deal with a wide range of stakeholder groups, some of them with conflicting interests that are almost impossible to reconcile (Heath & Norman, 2004). Likewise, the internal audit serves multiple stakeholders, such as regulators, the board of directors, top management, process owners, staff and the public at large. Hence, the stakeholder theory lays the responsibility and accountability foundation of internal audit function for various stakeholders' groups and society in enhancing corporate governance.

Public choice theory is defined as the application of the method and analytic apparatus of modern economics to the study of political processes (Buchanan, 1984). For this study, the theory offers an understanding and explanation of the complex institutional interactions that go on within the political sector and explains the characteristics of public enterprises. This theory contributes to the understanding of the unique SOE characteristics and their effect on corporate governance because SOEs operate in a unique environment that is frequently characterised by political influence and competing, but legitimate, stakeholder interests (Mbo & Adjasi, 2017b). Thus, the uniqueness of SOEs calls for an effective monitoring mechanism to safeguard the interest of stakeholders.

Therefore, this study investigated the influence of IAF practices on corporate governance by considering three practices, namely, internal auditors' competence, nature of work and compliance with standards, laws and regulations.

### ***Internal Auditors' Competence and Corporate Governance***

IIA standard 1210 requires internal auditors to possess knowledge, skills, and other relevant competencies to effectively execute the audit work (IIA, 2017). IIA further issued a competency framework for internal audit to demonstrate the required internal audit competencies on professionalism, performance of the audit work, environment and industry in which the organisation work as well leadership and communication (IIA, 2021). Consistent with IIA standard 1210 and the competency framework, Arena and Azzone (2009); Lin, Pizzini, Vargus, and Bardhan (2011), and Zain et al. (2006) also support the that skilled internal auditors are capable of providing value-added assurance that aims at improving the organisation's operations and, hence, achievement of organisational objectives. Furthermore, Vadasi, Bekiaris, and Andrikopoulos (2019) support the importance of competence as they claim that the work done by competent auditors significantly influences the promotion of corporate governance. Similarly, Lin et al. (2011) in their studies, suggest that internal audit competence has a significant positive influence on the decline of material weakness disclosure. Internal auditors acquire competencies to do their work from education, experience, on-the-job training, obtaining appropriate professional certifications, such as certified internal auditor (CIA), and continuous professional development (Al-Twajjry, Brierley, & Gwilliam, 2003; IIA, 2017; Lin et al., 2011; Sawyer & Riddle, 2012; Vadasi et al., 2019).

Drawing from prior studies, professional standards and the study theories on the importance of the internal auditor's competence in providing assurance and advisory roles, the researcher predicts a positive association between IA's competence and corporate governance. Thus, the following hypothesis is formulated:

**H<sub>1</sub>:** Internal auditor's competence has a positive influence on corporate governance

### ***Nature of Internal Audit Work and Corporate Governance***

The nature of internal audit work has changed over time from the traditional financial/compliance audit to a wider range of value-adding assurance and consulting services. IA standard 2100 requires internal auditors to conduct audits that lead to an improvement of governance, risk management and control processes (IIA, 2017). Similarly, Arena and Azzone (2009) and Fadzil, Haron, and Jantan (2005) found that internal audit plays a significant role in improving internal control systems and risk management processes. This viewpoint has been supported by Abuazza, Mihret, James, and Best (2015), who posit that management and other key stakeholders require reasonable assurance that the existing internal controls are working effectively to prevent and detect any significant errors and fraud. Furthermore, risk-based audit plans, assessment of the adequacy and effectiveness of the governance processes, risk management, and control process, fraud consideration, value-adding audit reports and effective follow-up mechanisms have been considered by prior literature to be proxies for the nature of internal audit work (Abuazza et al., 2015; Al-Twajjry et al., 2003; Arena & Azzone, 2009; Goodwin-Stewart & Kent, 2006). Thus, the researchers expect the nature of internal audit works has a positive significant influence towards

improving corporate governance. Based on these arguments, the researchers predict a positive association between IA nature of work and corporate governance. Therefore, the second hypothesis is stated as:

**H<sub>2</sub>:** Internal audit nature of work has a positive influence on corporate governance

### ***Compliance with Standards, Laws and Regulations and Corporate Governance***

IA literature on compliance with standards, laws and regulations, such as Dejnaronk, Little, Mujtaba, and McClelland (2016); Fadzil et al. (2005); Vadasi et al. (2019) and Kaawaase, Assad, Kitindi, and Nkundabanyanga (2016), found compliance with standards, laws and regulations (measured by compliance with the International Professional Practices Framework (IPPF), other professional standards, organisational policies and procedures and laws and regulations) contribute positively to the IA effectiveness and, hence, corporate governance. For example, Kaawaase et al. (2016) found that compliance with financial accounting standards, laws and regulations has a positive contribution to the quality of the audit, while Vadasi et al. (2019) found compliance with IIA standards has a significant contribution to corporate governance. Despite the existence of prior studies on IA, there is still little knowledge about the contribution of compliance with standards, laws and regulations to corporate governance, and some studies show mixed results (Kotb et al., 2020). It can therefore be argued that internal audit compliance with standards, laws and regulations have a significant contribution towards enhancing corporate governance consistent with the study theories.

Therefore, the researcher predicts a positive association between compliance with standards and laws and corporate governance. Thus, the third hypothesis is formulated as follows:

**H<sub>3</sub>:** Internal audit compliance with standards and laws has a positive influence on corporate governance

## **Methodology**

### ***Research Design, Population, and Sample***

This study adopted the positivist philosophy because it aims to examine the influence of internal audit function on corporate governance in Tanzanian SOEs through the medium of latent, measurable variables, from which the generalisations can be drawn. Aligned with the research philosophy, this study used a deductive approach with the quantitative methodological choice because of the use of theories, conceptual frameworks, and hypotheses to investigate the influence of internal audit function practices on corporate governance. The survey design, using a cross-sectional approach, was employed to collect primary quantitative data as it allows the collection of a large amount of data from a sizeable population (Saunders, Lewis, & Thornhill, 2016).

The study population comprised 106 SOEs, as per the definition of the Tanzania Public Corporation Act of 1992, which defines an SOE as an institution of which the government owns more than fifty-one per cent, and excluded research, sports, and higher learning institutions. Thus, the study population was classified into 12 sectors using the International Standard Industrial Classification of All Economic Activities (ISIC) framework and

summarised in Table 1, below. Krejcie and Morgan (1970)s'table at a 95% confidence level was used to determine the sample size. Therefore, the study sample size was 86 SOEs.

**Table 1: Sample size classification per industry sector**

Sector	Population		Sample Size	
	SOEs	%	SOEs	%
Utilities	18	21%	15	17%
Professional, Scientific, and Technical Services	17	20%	13	15%
Finance and Insurance, including banking	15	17%	11	13%
Agriculture, Forestry, Fishing and Hunting	13	15%	10	12%
Transportation and Warehousing	10	12%	8	9%
Manufacturing	10	12%	8	9%
Health Care, Social Assistance, Social security fund	8	9%	8	9%
Telecommunication, Broadcasting/Publishing	5	6%	5	6%
Mining, Quarrying, and Oil, Gas Extraction	4	5%	4	5%
Real Estate, Rental and Leasing	3	3%	2	2%
Construction	2	2%	1	1%
Arts, Entertainment, Recreation	1	1%	1	1%
<b>Total</b>	<b>106</b>	<b>100%</b>	<b>86</b>	<b>100%</b>

In order to select a sample, this study adopted probability sampling using a stratified random technique, as it intended to test the hypotheses of the study variables (Saunders et al., 2016) and it is aligned to the study philosophy, design, and strategy, that is, positivity, deductive and quantitative. The stratification was based on the industry sectors classification using the ISIC, and every stratum was assigned a nominal number, and then simple random sampling with the aid of Microsoft Excel to arrive at a sample size of 86 SOEs.

From each selected institution, responses were expected from management members (1), the Board of Directors (1), the external auditor (1) and the internal auditor (1). The external auditor of the SOEs is the Controller and Audit General (CAG), who is mandated to subcontract a private audit firm to perform the external auditing. From the list of external auditors provided, it was found that one private external audit firm was able to audit three SOEs; hence, from the selected SOEs, there were 29 external auditors. Therefore, the total number of observations analysed was 287 (i.e. 86 SOEs x 3= 258 and 29 – EA), which was in line with Hair, Black, Babin, Anderson, and Tatham (2010), who recommend a sample size of 15 to 20 observations for each independent variable or observations greater or equal to 200 when using multiple regression analysis. Of the 287 expected respondents, 211 were received, which is a 73% response rate. The response rate was within the minimum sample size conditions by Hair et al. (2010). The achieved response rate was attributed to the fact that some SOEs at the time of the data collection had no board of directors.

**Data Collection**

Primary and quantitative data were collected from sampled SOEs using a five-point Likert scale questionnaire, whereby 1= Strongly disagree; 2=Disagree; 3= Neither agree nor



disagree; 4= Agree and 5= Strongly agree. The selection of the five-point Likert scale was informed by the level of convenience to both the respondents and the researchers, as well as the level of data quality (Johns, 2010). The questionnaire was carefully designed, tested, and reviewed to gather information on practices of IA and Corporate Governance. The use of a self-administered questionnaire allowed the respondents to provide their perceptions of how they felt about the influence of internal audit function on corporate governance. The questionnaire also gathered information on respondents' profiles, such as experience, position in the organisation and educational qualifications, which aimed to assess the validity and reliability of the data provided.

### ***Measurement of variables and Model formulation***

This study included the nature of work, internal auditor competence and compliance with standards, laws and regulations as independent variables and corporate governance as a dependent variable. The nature of work was measured by five indicators: risk-based audit plan; assessment of the adequacy and effectiveness of the governance processes, risk management, and control process; fraud consideration; value-adding audit reports; and effective follow-up mechanisms. Internal auditors' competence was measured by knowledge, skills, experience, technology-based audit techniques, and continuing professional education. The compliance with standards, laws and regulations measurement included compliance with IIA standards, organisation policies and procedures and international accounting standards. These measurements are consistent with prior internal audit literature, such as Goodwin-Stewart and Kent (2006), Arena and Azzone (2009) and Al-Twaijry et al. (2003).

A multiple regression analysis was used to analyse the way internal audit function influences corporate governance. Therefore, the following regression model, designed to answer specific objectives, was used to test the influence of internal audit function on corporate governance and was expressed statistically as follows:

$$\text{Model: } CG = \alpha + \beta_1 NW + \beta_2 COM + \beta_3 COMP + \varepsilon$$

Where:

*CG= Corporate Governance.*

*$\alpha$ = Constant or intercept, which is the value of the CG when all other variables are zero;*

*$\beta_1 NW$ - Change in CG due to unit change in the nature of work*

*$\beta_2 COM$ - Change in CG due to unit change in the internal auditors' competence*

*$\beta_3 COMP$ - Change in CG due to unit change in compliance with standards, laws, and regulations*

*$\varepsilon$ = Stochastic/disturbance term or error term.*

## **Results**

### ***Descriptive statistics***

Descriptive statistics of the study variables include mean scores and standard deviations to explain and establish respondents' rating directions, the variations for all the study variables and their respective dimensions. The rule of thumb, according to Oxford and Burry-Stock (1995), is that a mean score greater than 3 with a standard deviation of less than 1 implies a positive perception and low variations of perceptions' scores, respectively. The descriptive statistics results also show that the respondent's perceptions of all the study variables were

normally distributed, as both the values of Kurtosis and skewness are close to zero (Field, 2013).

The descriptive results presented in Table 2, below, are the summated means and standard deviations of the study variables.

**Table 2: Descriptive statistics results of study variables**

Variable	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Nature of work of IA	4.42	.624	-1.510	.176	5.610	.350
Internal Audit Competencies	4.12	.632	-.954	.176	3.163	.351
Compliance with standards, laws, and regulations	4.37	.667	-1.560	.176	5.795	.350
Corporate Governance	4.03	.758	-.636	.177	.800	.352

All study variables had an average mean greater than 4 with a standard deviation of less than 1, implying that most respondents agreed that the internal audit function provides a positive contribution towards improving corporate governance. Thus, the nature of internal audit work has the highest scores (mean 4.42,  $\sigma$  0.624), followed by compliance with standards, laws and regulations (mean 4.37,  $\sigma$  0.667) and, lastly, internal audit competencies, whereby the mean is 4.12 and  $\sigma$  0.632. Also, corporate governance had a mean of 4.03 with a standard deviation of 0.76, meaning that respondents agreed that corporate governance is influenced by the audit function. The observed data show a high perception of the influence of internal audit function on corporate governance.

***Correlations and Reliabilities***

Table 3, below, provides the Pearson correlation coefficients and reliability coefficients (in brackets) among all three study variables. The Pearson correlation coefficients results show that all three study variables have a positive significant correlation (at  $P < 0.01$ ), and that the variables scales were reliable, as each of the variables met the rule of thumb of at least 0.70 Cronbach’s alpha (Hair et al., 2010; Tavakol & Dennick, 2011).

**Table 3: Pearson correlations and reliability coefficients**

Variables	1	2	3
1 Nature of work of IA	(0.912)		
2 Internal Auditor’s Competence	.578**	(0.874)	
3 Compliance with standards, laws, and regulations	.711**	.576**	(0.899)

*N=211 \*\* P<0.01( two tailed), Cronbach’s alpha in brackets*

***Multiple regression results***

The multiple regression summary of the model is provided in Table 4, below. The results show that the coefficient of determination (R Square-  $R^2$ ) was 0.413, adjusted R Square was

0.383, F value of 13.735, and P-value was 0.000, indicating that the internal audit practices are statistically significant in explaining the variance of corporate governance. Thus, overall, the regression model is stable and optimal.

**Table 4: Multiple regression results for H<sub>1</sub>, H<sub>2</sub>, and H<sub>3</sub>**

Predictors	Std. Error	Beta	T	Sig.	
(Constant)	.458		2.466	.016	
Internal Auditor's Competence	.078	.284	3.054	.003	
Nature of work of IA	.106	.231	2.174	.033	
Compliance with standards, laws, and regulations	.081	.363	3.696	.000	
<b>Model Summary</b>					
R Square	Adjusted R <sup>2</sup>	Std. Error	df	F	Sig.
.413	.383	.31428	4	13.735	.000

*Dependent Variable: Corporate Governance*

H<sub>1</sub> predicted that the internal auditors' competence has a positive influence on corporate governance. The study results, as presented in Table 4, above, support a significant positive influence of internal auditor's competencies (beta=-0.284,  $p \leq 0.01$ ) (sig.  $F=0.003$ ) on corporate governance of SOEs in Tanzania. Therefore, H<sub>1</sub> is statistically supported and, hence, accepted. The second hypothesis (H<sub>2</sub>) predicted that the internal audit nature of work has a positive influence on corporate governance. The study results on the internal audit nature of work (beta=0.231,  $p < 0.05$ ) (sig.  $F=0.033$ ) in corporate governance show that the internal audit nature of work positively influences corporate governance. Therefore, H<sub>2</sub> is statistically supported. Furthermore, H<sub>3</sub> predicted that internal audit compliance with standards, laws and regulations has a positive influence on corporate governance. The results on compliance with standards, laws, and regulations (beta=.363,  $p < 0.01$ ) (sig.  $F=0.000$ ) are statistically supported.

Therefore, the results support a significant positive influence on compliance with standards, laws, and regulations (beta=.363,  $p < 0.01$ ) (sig.  $F=0.000$ ), Internal Auditor's Competencies (beta=-0.284,  $p \leq 0.01$ ) (sig.  $F=0.003$ ) and Nature of work of IA (beta=0.231,  $p < 0.05$ ) (sig.  $F=0.033$ ) in corporate governance. Thus, H<sub>1</sub>, H<sub>2</sub> and H<sub>3</sub> are statistical supported

## Discussion

This study investigated the influence of internal audit function practices on corporate governance in Tanzanian SOEs. In order to achieve the study objective, three hypotheses were developed and tested. The first hypothesis predicted that internal auditors' competencies have a positive influence on CG. The study results supported the hypothesis that indicates a positive significant influence of internal auditors' competencies on corporate governance. These results were aligned with the IIA standard 1210, which requires internal auditors to possess knowledge, skills and other relevant competencies to effectively deliver their audit work. Descriptive statistics are also aligned with the study results, as the respondents'

perceptions indicated a positive result. Similarly, the results concur with empirical studies such as Alzeban and Gwilliam (2014); Arena and Azzone (2009); Fadzil et al. (2005); Lin et al. (2011); Sarens and Abdolmohammadi (2011a), Sarens, Abdolmohammadi, and Lenz (2012), Mihret and Grant (2017) and Oussii and Taktak (2018). For instance, Lin et al. (2011) in their studies found that internal audit competence contributes significantly to the decline of material weakness disclosure, hence enhancing the financial reporting process. Likewise, Vadasi et al. (2019) support the study results, as they claim that the work done by a competent internal auditor has a significant contribution to enhancing CG in an organisation.

Thus, to effectively contribute to improving the corporate governance of SOEs in Tanzania, the internal audit function must be resourced with competent auditors with the right knowledge, skills, and experience in conducting the audit work using technological-based techniques. The study also suggests that internal auditors in SOEs should continue improving their competencies through learning programs offered by relevant professional bodies and others that will help them in upskilling their skills.

Furthermore, the second study hypothesis predicted that the nature of internal audit work positively influences CG. The study findings show that the nature of internal audit work significantly positively influences corporate governance in SOEs. These results are consistent with descriptive statistics that also indicate a positive contribution of the internal audit nature of work to corporate governance. Similarly, the results are consistent with empirical studies such as Arena and Azzone (2009), who found the nature of internal audit work influences CG. This implies that the nature of internal work (measured by the use of a risk-based audit plan, assessment of the adequacy and effectiveness of the governance processes, risk management, and control process, consideration of fraud risk, value-adding internal audit reports, and effective follow-up mechanisms of audit recommendations) significantly contributes towards improving the CG in Tanzanian SOEs.

Lastly, the study hypothesis predicted that compliance with standards, laws, and regulations has a significant influence on CG. The study predicted IA compliance with the international professional practices framework (IPPF) and compliance with Tanzanian laws and regulations relevant to delivering their work, such as the Public Finance Act, Procurement laws and regulations, contribute significantly to improving CG. The study results supported this hypothesis, and the results are aligned with empirical studies such as Dejnaronk *et al.* (2016); Fadzil *et al.* (2005); Vadasi *et al.* (2019) and Kaawaase *et al.* (2016), as well as descriptive statistics and IIA standards. For example, Kaawaase et al. (2016) found compliance with financial accounting standards, laws and regulations has a positive contribution to the quality of the audit, while Vadasi et al. (2019) found compliance with IIA standards has a significant contribution to corporate governance.

Overall, the study found statistical support for H<sub>1</sub>-Internal auditor's competence has a positive influence on corporate governance, H<sub>2</sub> - Internal audit nature of work positively influences corporate governance, and H<sub>3</sub>. Internal audit compliance with standards, laws and regulations has a positive influence on corporate governance. This indicates that IAF influences corporate governance in Tanzanian SOEs when the IAF has competent internal auditors, complies with standards, laws, and regulations, and when its nature of work is comprehensive enough to support the accomplishment of organizational objectives. These results support the

application of the agency theory ( complemented by stakeholders and public choice theories) as it explains the critical role internal audit function on CG processes and its influence to satisfy the need for accountability and transparency from a wider range of stakeholders, such as regulators, government, decision-makers, top management, public, shareholders and other stakeholders.

## **Conclusion and Implications**

The objective of this study was to investigate the influence of internal audit function practices on corporate governance in Tanzanian SOEs. The study found sufficient empirical evidence to support the hypotheses that an internal auditor's competence, the nature of internal audit work and compliance with standards, laws and regulations have a significant contribution to CG in Tanzanian SOEs. The results are reflected in the IA function practices' statistical significance and positive effect on corporate governance exhibited by SOEs in Tanzania. Therefore, the study concludes that an internal auditor's competence, nature of work and compliance with standards and laws have a positive significant influence on the corporate governance of SOEs in Tanzania.

The findings have several practical implications for practitioners, academicians, decision-makers, and policymakers in their efforts to improve the corporate governance of Tanzanian SOEs. For practitioners, this study provides evidence on variables (internal auditor's competence, nature of work and compliance with standards, laws and regulations) that contribute significantly to improving CG in SOEs. This will help in focusing their efforts relating to these observed factors as they work toward improving corporate governance in their institutions. For academics, this study adds to the knowledge about the influence of internal audit function on corporate governance, particularly in Tanzanian SOEs, as this context is under-researched. Providing new evidence (and a unique perspective) from a context that is culturally, socially, legally and politically distinct from that of other countries, particularly developed countries, can enhance our understanding of the concepts of the internal audit function and CG. This study opens more areas for further studies, particularly extending the study to the private sector and central and local government.

Also, the findings will assist decision-makers, such as the board, management and other stakeholders charged with governance, to pay special attention to internal audit function practices contributing to improving CG in SOEs. It also provides an understanding of what to expect from the internal audit function and, hence, opens up room to explore further the contribution of IAF in CG of SOEs. For example, the need to have competent internal auditors with diverse skills relevant to the SOEs should not be underscored; hence, in making decisions, adequate resources should be allocated to support the IAF delivery. Also, the board should strengthen its oversight responsibility of the IAF activities and provide necessary support as required in order to enhance SOEs' corporate governance. In compliance with standards, specifically IPPF, decision-makers should oversee the quality of the internal audit function by ensuring that their IAF undergoes external quality assessment (EQA) to determine their level of conformity with the internal audit standards. Also, in order to maintain consistent compliance with the IPPF and the quality required, it is suggested that practising internal auditors be members of the IIA.

Furthermore, the study confirms that internal audit function practices, namely, nature of work, internal auditor's competence and compliance with standards, laws and regulations, contribute significantly to the improvement of CG in Tanzanian SOEs. Hence, policymakers, when enacting new legislation or amending existing ones, should recognise that all aspects illuminated by this study, which contribute significantly to internal audit function and CG improvement, should have legal backing.

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