

The Impact of Executive Management on Internal Auditing Quality Under the Agency's Problem: Evidence From Egypt

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Abstract

The study provides a framework for determinants of an impact of Executive Management on internal auditing quality according to eight dimensions (1) leadership style of executive management, (2) Organizational Culture, (3) operation cost of internal auditing, (4) providing information and disclosure for internal auditor (5) cooperation and facilitation from executive management (6) the attitude of executive management of earnings management, (7) the attitude of executive management for creative accounting and (8) professional ethics of executive management. The population of the study is Egyptian manufacturing firms listing at EGX and their employees. Accordingly, the number of received questionnaires was 392

from 28 firms in the first half of 2019 but the financial reports for 2018. The study found the impact of executive management on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; executive management interprets (97.1%) of an internal auditing quality level. Finally; the current framework of corporate governance need to take into organizational characteristics, as well as the ethical and behavioural variables, with than further controls on the Board of Directors, as well as ensuring the independence of internal audit to maximize the quality of internal audit.

Keywords: Executive management, Agency's problem, Internal auditing quality

JEL Codes: M12, M14, M42

1. Introduction

1.1 Background

The essence of the agency's problem occurs when the manager is not the owner; this is the case with companies entering economies of scale. In this situation, the conflict begins on benefits from firm, These benefits may be tangible or intangible, there are many determinants of decisions.in the past while founders start-up firms and completely own and control them on an individual or family basis, but at a public firms owned by numerous small shareholders but none with a dominant level of control, dispersal of ownership among many small shareholders (Shleifer and Vishny,1986), in which control is largely concentrated in the hands of salaried, professional managers who own little (or no) equity. Family or Institutional ownership may support better incentives for the firm managers to focus on common stock's value, long-run growth with competitive performance standards. (Duggal and Millar, 1999; Anderson and Reeb, 2003; Silva and Majluf, 2008; Charbel et al., 2013) That may also minimize the conflicts between owners and professional managers. But when that leads to the selection of less qualified managers to the destruction of firm's value and its sustainable performance (Huselid, 1995).

Investors have been exposed to fraud and corruption in many regulated markets (Unerman et. al, 2004; Le Guyader, 2010; Van Aalst et. al., 2010; Balkaran, 2013; Dutta et. al.,2014; Dibra, 2016; Clikeman and Liu, 2017); The executive management played a role in the event. Besides some professional parties like external auditors as well as internal auditors. The characteristics of the business environment, professional standards, and regulation are the determinants of interaction between stakeholders. But what is the criterion of this interaction between internal and external of firm's stakeholders; it is decided in favor of the efficiency of information - or in other words the quality of financial reports as a reflection of decision-making in firm. the decisions in any firm are related to factors like as job context, organizational culture, and firm characteristics, it's have been shown to impact on decision making process according to the ethical (Trevino 1986). Therefore, the study expects to find an impact of executive management on internal auditing quality.

1.2 Study Importance

Good corporate governance supports corporation efficiency and provides protection to shareholders and other stakeholders. This cannot be achieved without fair financial statements. This is an interaction between governance mechanisms. Under the principle of separation of ownership and management addition to their impact of conflict on benefits between shareholders and management. The discussion study details the elements of executive management relevant to the process of financial reporting and internal auditing. There have lack of studies on this subject (executive management and internal auditing quality). So, this review is necessary. The study investigates determinants internal auditing quality within a corporate culture and the attitude of executive management. Therefore, the importance of the study is understand the impact of executive management and its determinants on the quality of internal audits as the first assurance on financial information disclosed at financial statements

1.3 Literature Review

Shareholders& investors are very interested in the performance of a firm in which they are seeking to increase their wealth, so they tend to invest in a firm where their wealth increases. Shareholders& investors are willing to evaluate the performance of management. So they use multiple sources of information & various reports. The potential conflict of interest among managers, shareholders, & other users of financial statements casts. Managers have many internal & external reasons to manage the earnings because they have flexibility in making accounting or operating choices. If they have good looking financial statements. Creative accounting is the final factor listed. Shareholders, investors & creditors provide the management with operational financial resources that are used by the management in economic activities. In order to fulfill their accountability concerning how to use these resources to fulfill the legal requirements of economic activities using accounting as an information system. The management reports basic financial statements & notes to the financial statements for internal & external users of such reports. There are some reports in accounting that are oriented to cash accounting information such as cash flows. There are some reports which deal with accrual such as earnings. On the other hand, some scales have been developed in the field of economics with cash orientation for accounting such as value added& scales with accrual orientation with information content. There are several accounting approaches (e.g. different methods of measuring depreciation) which can affect the profit rate (Delkhosh et al., 2017).

What is the role of accounting earnings on an accrual & cash basis in evaluating the performance of enterprises? The question that how is the quality of the information content of such reports& scales for improving the management performance? The question that the impact of executive Management on internal auditing quality? The CEO assumes primary responsibility for the system of internal controls. The “tone at the top” (how ethical or how mush integrity an organization has) is set by the CEO& rolls down from there to senior management (IIA, 2009).

It is clear that corporate governance the whole world is receiving considerable attention; that good governance work involves a many models of effective governance (Tam, 2000; Kurtz and Schrank, 2007; Bradshaw et. al., 2007). A post-Enron consensus on corporate governance has emerged among investor groups, government regulators, and private sector market overseers. The corporate board should function principally as an oversight body for shareholders. Therefore, the executive management has the ability to affect the quality of financial reports through disclosures of income and expenses instead of risks.

Under corporate governance, there should be cooperation between governance mechanisms to minimize agency costs; however the conflict on the benefits of Stakeholders from the corporate may enlarge these costs. Executive compensation is one of method to minimize these costs with the attitude of Executive Management for risk (Carpenter and Sanders, 2002; Bebchuk and Fried, 2003; Bolton et. al., 2015; Firth et. al., 2006) When a corporate is over-evaluated significantly, it creates a compilation of organisational powers which are extremely difficult to deal with armies which almost certainly cause portion or all of the key significance of the corporate to be destroyed (Jensen, 2005). "Earnings Management", "Creative Accounting" and "Management Ethics" is a determinant of management's impact on the quality of financial reporting opposed to internal audit.

From the top of the business hierarchy, governance assists in minimizing agency issues, however this depends on some aspects; most importantly, the practices of executive management, the quality of internal audit, as well as the interaction between them is the foundation that determines the quality of financial reports under disclosures of income, expenses and risks whether currently or in the long-term. According to (Arel et. al., 2012) Two elements of corporate governance, it's the strength of ethical executive leadership and the internal audit function (IAF) provide guidance to accounting managers making decisions involving uncertainty.

Executives tend to implement & execute strategies, policies, and specific practices that reflect on the organization's ethical culture & environment (e.g., Sweeney et al. 2010; Victor and Cullen 1988; Upchurch and Ruhland, 1996; Trevino et al. 1998); Organizational culture concept indicates that organisations have recognizable values that consist of ethics. The term culture refers to the mutual views of the employees of an organisation. Therefore, an organization's ethical culture would be expressed in an organization's views regarding the ethics that its participants share. Thus, conceptualizing the ethics of distinct organisations as occurring on a continuum bordered by unethical firms at one end and extremely ethical firms at the other end is logical (Vitell et. al., 1993; Key, 1999; Huhtala et. al., 2015; Abou Hashish, 2017) and significantly influences financial reporting decisions (D'Aquila 1998); but Employees at lower hierarchal levels are often under constant pressure in the light of permanent instructions from their manager, which means that part of their performance relies on the leadership style of these managers, which is reflected in the internal audit activities in terms of the ability to perform tasks effectively and efficiently.

The professionalism of the audit has been criticized in many countries; mainly due to financial scandals & fraud in many enterprises. See; Vivendi in France, Parmalat in Italy, and

in Japan there are other collapses, including Tyco and Olympus, which led to the attention of international professional bodies overseeing the audit profession, to improve performance through reinforcement of professional framework in regards to both standards & methods of practice according to the mechanisms of corporate governance (Unerman and O'Dwyer, 2004; Le Guyader, 2010; Van Aalst et. al., 2010; Balkaran, 2013; Dutta et. al., 2014; Dibra, 2016; Clikeman and Liu, 2017).

The study assumes and attempts to affirm that the interaction between internal audit and executive management is the foundation of the quality of financial reports and reduce the agency problems, which enhances the protection of stakeholders.

1.4 Study Problem

The sequential changes in the contemporary business environment and development of business models on organizational culture and leadership style are expected to raise number of challenges for Quality of financial reporting and protection of stakeholders, especially shareholders, lenders and suppliers.

During the accounting process there is always room for potential error, which is normal. Since humans introduced the error, and the accountant is eventually a human being. Regarding this matter, some classified accounting errors in terms of intent: which are classified into two categories; firstly: deliberate errors (fraud in the financial statements) are committed deliberately and pre-determined, with the aim of embezzlement and fraud or to cover past embezzlement or fraud, such as embezzlement of cash and goods and manipulation of financial statements including the existence of mock debts without the accounts of the debtors. Secondly: Unintentional errors (errors in financial statements) are errors that are not deliberately committed, which occur either because of ignorance of accounting principles or negligence in the performance of work such as oversight in the payment of the salary of an employee (accidental fall of the transaction), wrong tabulation, and value errors.

Here the study highlights the significance and ability of the executive leadership to deal with this situation according to the ethical dimension and leadership style. Therefore the study addresses the following question:

How does executive management impact on the internal audit quality?

1.5 Study Layout

As a significant component of management, internal auditing is evolving, it is vital that intervention be given to guarantee that internal audit efficiency conforms to high quality standards. Determining that it is a productive process that enhances its goals and objectives. General Standard 300 relates to scope and the specific standards included in this general standard are:

A. assuring integrity of financial and operational information and reports

- B. the determination that the organization is complying with laws, statutes, policies, procedures, and financial instruments;
- C. an examination to determine that the organization is operating efficiently and economically;
- D. the determination that the organization is accomplishing the goals and objectives for which resources have been provided; and
- E. the determination that organization assets are safeguarded.

According to the IIA (2000) that five variables of auditing practices, which were: independence and objectivity, professional proficiency, scope of work, performance of audit work and management of the internal auditing department. So; The following figure illustrates the parameters and mechanisms of internal audit quality based on executive management.

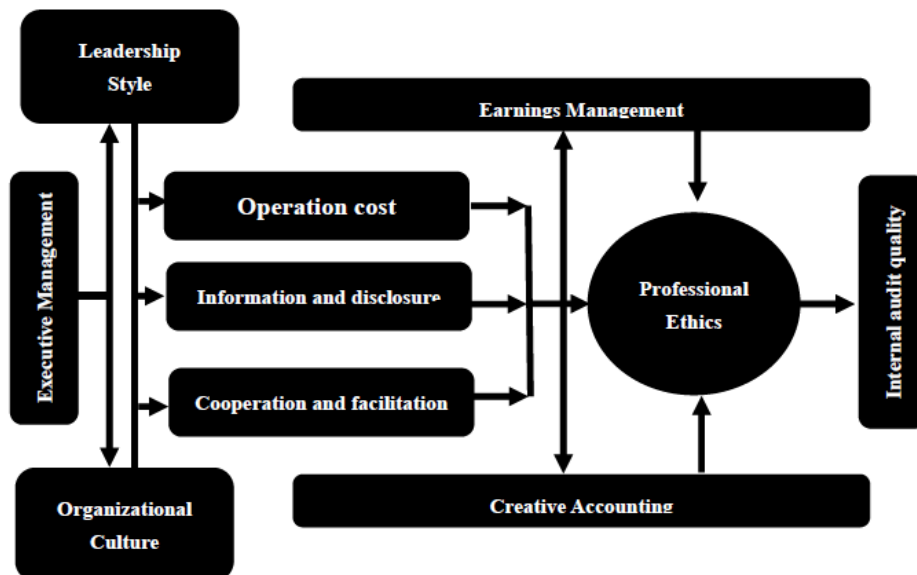


Figure 1. Study layout

The above figure illustrates the two main factors that can identify the style of executive management in companies; specifically leadership style and organizational culture, where these factors impact three aspects of the internal audit activity, the cost - benefit analysis of audit operation, provide information and disclosure to complete the audits and cooperation & facilities provided to the auditor. However, these activities are not far from management's attitudes towards earnings management (Prawitt et al. 2009; Vladu and Cuzdriorean 2014; Ghazali et al. 2015) and creative accounting practices, thus we find seven factors that affect the quality of internal audit in light of professional ethics of executive management.

1.6 Study Hypotheses

According to study problem and their layout; the researcher can formulate the study hypothesis as follows:

There an impact of executive management on internal auditing quality

Therefore, sub-hypotheses can be examined as follows

(H₁) There an impact of leadership style on internal auditing quality.

(H₂) There an impact of organizational culture on internal auditing quality.

(H₃) There an impact of internal auditing transaction cost on internal auditing quality.

(H₄) There an impact of information and disclosure about activities of corporate on internal auditing quality.

(H₅) There an impact of cooperation and facilitation for internal auditing on internal auditing quality.

(H₆) There an impact of adopting earnings management methods on internal auditing quality.

(H₇) There an impact of adopting creative accounting methods on internal auditing quality.

(H₈) There an impact of professional ethics on internal auditing quality.

1.7 Study Methodology

The study is based on a combination of the inductive approach and the deductive approach. So; the study used dual-level for testing the study hypotheses. The first level examines the parameters of executive management according to descriptive variables through the questionnaire form; preliminary data are obtained from employees of the study sample companies. The second level examines internal auditing quality according to quantitative variables through the document survey of the external audit report as a performance indicator of internal auditing quality; Secondary data are obtained from published financial reports in accordance with stock market disclosures.

1.8 Society and Sample

The hypotheses of the study are tested via the Egyptian industrial sector, where relying on industrial companies only as the working environment and determinants are identical between production processes and storage and related processes of recognition, measurement and disclosure, whether assets or expenses, which reduces the impact of natural variations of Business models on the results of hypotheses assessment.

2. Data and Examining Hypotheses

2.1 Data Collection

The study's data collection relied on the utilization of two methods quantitative and qualitative based on the nature of the data obtained, where the questionnaires were conducted to collect data on the independent variables (8 variables) versus documentary survey of external audit reports According to the financial statements published for 2018 or 2017/2018 and according to the financial period of each company (for more see Appendix A); The following table shows the most important characteristics of the primary data collection process through the questionnaires form

Table 1. Data collection through the questionnaires

Distributed forms	Non-received forms	Received forms	Incomplete forms	Complete forms	Forms with errors	Forms available for statistical analysis	are for
440	21	419	27	393	1	392	
100%	4.77%	95.23%	6.14 %	89.32%	0.23%	89.09%	

According to the previous table, the study indicates that the response rate is (95.23%) while the percentage of forms valid for statistical analysis is (89.09%).

2.2 Examining the Impact of Leadership Style on Internal Auditing Quality

This hypothesis examines the impact of leadership style on internal auditing quality. The study used Panel (data) analysis with cross-sectional units to examine this hypothesis.

Table 2. Test hypothesis No. 1 output

Model 1: WLS, using 392 observations

Included 28 cross-sectional units

Dependent variable: IAQ

Weights based on per-unit error variances

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.0977224	0.0189875	-5.147	<0.0001	***
LS	0.186631	0.00554369	33.67	<0.0001	***

Statistics based on the weighted data

Sum squared resid	379.2569	S.E. of regression	0.986131
R-squared	0.743987	Adjusted R-squared	0.743331
F(1, 390)	1133.361	P-value(F)	1.9e-117
Log-likelihood	-549.7465	Akaike criterion	1103.493
Schwarz criterion	1111.436	Hannan-Quinn	1106.641

Statistics based on the original data:

Mean dependent var	0.517959	S.D. dependent var	0.276981
Sum squared resid	17.71082	S.E. of regression	0.213102

Source: Gnu Regression, Econometrics and Time-series Library output.

The previous statistical results show that there impact of leadership style on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; the leadership style interprets (74.33%) of an internal auditing quality level

2.3 Examining the Impact of Organizational Culture on Internal Auditing Quality

This hypothesis examines the impact of organizational culture on internal auditing quality. The study used Panel (data) analysis with cross-sectional units to examine this hypothesis.

Table 3. Test hypothesis No. 2 output

Model 2: WLS, using 392 observations

Included 28 cross-sectional units

Dependent variable: IAQ

Weights based on per-unit error variances

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	0.106813	0.0100688	10.61	<0.0001	***
ORC	0.191468	0.00422581	45.31	<0.0001	***

Statistics based on the weighted data

Sum squared resid	375.6977	S.E. of regression	0.981493
R-squared	0.840355	Adjusted R-squared	0.839946
F(1, 390)	2052.922	P-value(F)	1.8e-157
Log-likelihood	-547.8984	Akaike criterion	1099.797
Schwarz criterion	1107.739	Hannan-Quinn	1102.945

Statistics based on the original data:

Mean dependent var	0.517959	S.D. dependent var	0.276981
Sum squared resid	14.90396	S.E. of regression	0.195487

Source: Gnu Regression, Econometrics and Time-series Library output.

The previous statistical results show that there impact of organizational culture on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; the organizational culture interprets (84.03%) of an internal auditing quality level.

2.4 Examining the Impact of the Cost - Benefit Analysis of Audit Operation on Internal Auditing Quality

This hypothesis examines the impact of the cost - benefit analysis of audit operation on internal auditing quality. The study used Panel (data) analysis with cross-sectional units to examine this hypothesis.

Table 4. Test hypothesis No. 3 output

Model 3: WLS, using 392 observations

Included 28 cross-sectional units

Dependent variable: IAQ

Weights based on per-unit error variances

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.116802	0.0234012	-4.991	<0.0001	***
OPC	0.233654	0.00835778	27.96	<0.0001	***

Statistics based on the weighted data

Sum squared resid	389.3989	S.E. of regression	0.999229
R-squared	0.667112	Adjusted R-squared	0.666258
F(1, 390)	781.5646	P-value(F)	3.48e-95
Log-likelihood	-554.9190	Akaike criterion	1113.838
Schwarz criterion	1121.781	Hannan-Quinn	1116.986

Statistics based on the original data

Mean dependent var	0.517959	S.D. dependent var	0.276981
Sum squared resid	16.88446	S.E. of regression	0.208071

Source: Gnu Regression, Econometrics and Time-series Library output.

The previous statistical results show that there impact of operation cost on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; operation cost interprets (66.63%) of an internal auditing quality level.

2.5 Examining the Impact of Information and Disclosure on Internal Auditing Quality

This hypothesis examines the impact of information and disclosure on internal auditing quality. The study used Panel (data) analysis with cross-sectional units to examine this hypothesis.

Table 5. Test hypothesis No. 4 output

Model 4: WLS, using 392 observations

Included 28 cross-sectional units

Dependent variable: IAQ

Weights based on per-unit error variances

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.109560	0.0118024	-9.283	<0.0001	***
ID	0.209191	0.00376386	55.58	<0.0001	***

Statistics based on the weighted data

Sum squared resid	374.0417	S.E. of regression	0.979327
R-squared	0.887899	Adjusted R-squared	0.887612
F(1, 390)	3089.004	P-value(F)	2.0e-187
Log-likelihood	-547.0326	Akaike criterion	1098.065
Schwarz criterion	1106.008	Hannan-Quinn	1101.213

Statistics based on the original data

Mean dependent var	0.517959	S.D. dependent var	0.276981
Sum squared resid	12.67431	S.E. of regression	0.180273

Source: Gnu Regression, Econometrics and Time-series Library output.

The previous statistical results show that there impact of information and disclosure on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; information and disclosure interprets (88.76%) of an internal auditing quality level.

2.6 Examining the Impact of Cooperation and Facilitation on Internal Auditing Quality

This hypothesis examines the impact of cooperation and facilitation on internal auditing quality. The study used Panel (data) analysis with cross-sectional units to examine this hypothesis.

Table 6. Test hypothesis No. 5 output

Model 5: WLS, using 392 observations

Included 28 cross-sectional units

Dependent variable: IAQ

Weights based on per-unit error variances

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.0646661	0.0160926	-4.018	<0.0001	***
CF	0.182651	0.00481956	37.90	<0.0001	***

Statistics based on the weighted data

Sum squared resid	384.8679	S.E. of regression	0.993399
R-squared	0.786446	Adjusted R-squared	0.785899
F(1, 390)	1436.238	P-value(F)	8.2e-133
Log-likelihood	-552.6250	Akaike criterion	1109.250
Schwarz criterion	1117.193	Hannan-Quinn	1112.398

Statistics based on the original data

Mean dependent var	0.517959	S.D. dependent var	0.276981
Sum squared resid	15.74549	S.E. of regression	0.200930

Source: Gnu Regression, Econometrics and Time-series Library output.

The previous statistical results show that there impact of cooperation and facilitation on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; cooperation and facilitation interprets (78.59%) of an internal auditing quality level.

2.7 Examining the Impact of Earnings Management on Internal Auditing Quality

This hypothesis examines the impact of earnings management on internal auditing quality. The study used Panel (data) analysis with cross-sectional units to examine this hypothesis.

Table 7. Test hypothesis No. 6 output

Model 6: WLS, using 392 observations

Included 28 cross-sectional units

Dependent variable: IAQ

Weights based on per-unit error variances

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.532126	0.0402033	-13.24	<0.0001	***
EM	0.399532	0.0151614	26.35	<0.0001	***

Statistics based on the weighted data

Sum squared resid	388.4455	S.E. of regression	0.998005
R-squared	0.640360	Adjusted R-squared	0.639438
F(1, 390)	694.4178	P-value(F)	1.25e-88
Log-likelihood	-554.4385	Akaike criterion	1112.877
Schwarz criterion	1120.820	Hannan-Quinn	1116.025

Statistics based on the original data

Mean dependent var	0.517959	S.D. dependent var	0.276981
Sum squared resid	16.09349	S.E. of regression	0.203139

Source: Gnu Regression, Econometrics and Time-series Library output.

The previous statistical results show that there impact of earnings management on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; earnings management interprets (63.94%) of an internal auditing quality level.

2.8 Examining the Impact of Creative Accounting on Internal Auditing Quality

This hypothesis examines the impact of creative accounting on internal auditing quality. The study used Panel (data) analysis with cross-sectional units to examine this hypothesis.

Table 8. Test hypothesis No. 7 output

Model 7: WLS, using 392 observations

Included 28 cross-sectional units

Dependent variable: IAQ

Weights based on per-unit error variances

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.193678	0.0545302	-3.552	0.0004	***
CA	0.208777	0.0158820	13.15	<0.0001	***

Statistics based on the weighted data

Sum squared resid	391.4635	S.E. of regression	1.001875
R-squared	0.307042	Adjusted R-squared	0.305265
F(1, 390)	172.8045	P-value(F)	6.28e-33
Log-likelihood	-555.9555	Akaike criterion	1115.911
Schwarz criterion	1123.853	Hannan-Quinn	1119.059

Statistics based on the original data

Mean dependent var	0.517959	S.D. dependent var	0.276981
Sum squared resid	24.21922	S.E. of regression	0.249200

Source: Gnu Regression, Econometrics and Time-series Library output.

The previous statistical results show that there impact of creative accounting on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; creative accounting interprets (30.52%) of an internal auditing quality level.

2.9 Examining the Impact of Professional Ethics on Internal Auditing Quality

This hypothesis examines the impact of professional ethics on internal auditing quality. The study used Panel (data) analysis with cross-sectional units to examine this hypothesis.

Table 9. Test hypothesis No. 8 output

Model 8: WLS, using 392 observations

Included 28 cross-sectional units

Dependent variable: IAQ

Weights based on per-unit error variances

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.324324	0.0146397	-22.15	<0.0001	***
PE	0.262870	0.00446696	58.85	<0.0001	***

Statistics based on the weighted data

Sum squared resid	372.0880	S.E. of regression	0.976766
R-squared	0.898781	Adjusted R-squared	0.898522
F(1, 390)	3463.043	P-value(F)	4.5e-196
Log-likelihood	-546.0062	Akaike criterion	1096.012
Schwarz criterion	1103.955	Hannan-Quinn	1099.160

Statistics based on the original data

Mean dependent var	0.517959	S.D. dependent var	0.276981
Sum squared resid	11.37300	S.E. of regression	0.170768

Source: Gnu Regression, Econometrics and Time-series Library output.

The previous statistical results show that there impact of professional ethics on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; professional ethics interprets (89.85%) of an internal auditing quality level.

2.10 Examining the Impact of Executive Management on Internal Auditing Quality

This hypothesis examines the impact of executive management on internal auditing quality. The study used Panel (data) analysis with cross-sectional units to examine this hypothesis.

Table 10. Test hypothesis No. 9 output

Model 9: WLS, using 392 observations

Included 28 cross-sectional units

Dependent variable: IAQ

Weights based on per-unit error variances

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.0853989	0.0163188	-5.233	<0.0001	***
LS	-0.0821728	0.0134769	-6.097	<0.0001	***
OC	0.0462718	0.00598659	7.729	<0.0001	***
OC	0.00493089	0.00675507	0.7300	0.4659	
ID	0.0702307	0.0124943	5.621	<0.0001	***
CF	0.0858137	0.0139090	6.170	<0.0001	***
EM	0.0317166	0.0240846	1.317	0.1887	
CA	-0.0670380	0.0106161	-6.315	<0.0001	***
PE	0.132120	0.0210859	6.266	<0.0001	***

Statistics based on the weighted data

Sum squared resid	130.9022	S.E. of regression	0.584621
R-squared	0.971628	Adjusted R-squared	0.971035
F(8, 383)	1639.515	P-value(F)	5.9e-291
Log-likelihood	-341.2489	Akaike criterion	700.4978
Schwarz criterion	736.2391	Hannan-Quinn	714.6630

Statistics based on the original data

Mean dependent var	0.517959	S.D. dependent var	0.276981
Sum squared resid	9.855666	S.E. of regression	0.160414

Source: Gnu Regression, Econometrics and Time-series Library output.

The previous statistical results show that there impact of executive management on internal auditing quality, and it is significant at 0.01 level. According to adjusted R-squared; executive management interprets (97.10%) of an internal auditing quality level.

3. Conclusions and Recommendations

3.1 Discussion and Conclusions

The globalization business and cases of fraudulent financial reporting such as "Enron", "Vivendi", "Parmalat", "Tyco" and "Olympus". That makes the increasing attention on internal controls and internal audit functions. Prior study has often focused on the economic incentives for the behavior and their influence on internal auditing. e.g., Healy (1985); McVay (2006); Cohen et al. (2008), Vladu and Cuzdriorean (2014), Ghazali et al. (2015) and has focused relatively less attention on, for instance, organizational factors. This study provides evidence on the impact of executive management on an internal auditing quality. That is agree with Merchant & Rockness, (1994) Douglas et al. (2001) Prawitt et al. (2009) Arel et al. (2012).

Consistent with findings in organizational research, this study shows that there is a significant joint influence of "Leadership style", "Organizational Culture", "Operation Cost", "Information and Disclosure", "Cooperation and Facilitation", "Earnings Management", "Creative Accounting" and "Professional Ethics". According to panel analysis with cross-sectional units' results; each individual variable is significant at 0.01 level. According to adjusted R-squared; executive management interprets (97.10%) of an internal auditing quality level.

According to the statistical results; the study can ranking the impact of organizational factors on internal auditing quality as a following:

	the organizational factors
1	Organizational culture at corporation
2	The attitude of executive management for creative accounting
3	Professional ethics of executive management
4	Cooperation and facilitation from executive management
5	Leadership style of executive management
6	Providing information and disclosure for internal auditor
7	The attitude of executive management of earnings management
8	Operation cost of internal auditing

The study interprets these results to suggest that the Agency's Problem, according to the conflict of interest between internal and external stakeholders, which in turn differentially influences Internal Auditing Quality. When a leadership style and organizational culture are strong; with available to track workers' behavior, managers are not only prepared to 'walk'

in a fragile organisational setting with their manager. This is reflected in the practices of the staff in general and the internal auditors in particular.

From a practical perspective, the strong leadership style and organizational culture condition may not be readily apparent. That can lead to a strong internal control system. But according to Enron case that any directors who wish to override an internal control system generally, he cans that when has the expertise and knowledge, irrespective of its power.(Downes and Russ 2005)

3.2 Recommendations

In the meantime, for the relevant national authorities and international bodies such as Organisation for Economic Co-operation and Development: OECD; Financial Stability Board: FSB; Financial Action Task Force: FATF; International Organization of Securities Commissions: IOSCO and The Financial Accounting Standards Board: FASB should enhance & boost the governance framework since the board of directors and internal auditing are vital mechanisms of governance, which indicate the efficiency of financial markets. The proposed corporate governance framework should consider organizational characteristics, as well as the ethical and behavioral variables. Moreover, further control on the Board of Directors must be taken into consideration, as well as ensuring the independence of internal auditing. In Egypt, the study recommends by the development regulatory of listing and delisting at Egyptian Exchange for each "Financial Regulatory Authority" (a financial regulatory authority that regulates the financial service industry in Egypt) and "Egyptian Exchange: EGX".

On the other hand; the future direction for study includes "Measures of Professional ethics of executive management"; "the impact of Board of Directors on financial reporting quality"; "Measures of independence of internal auditing" and "the role of internal committee to support the independence of internal auditing".

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Appendix A: Sample list

The sample of the study included 28 companies listed on the Egyptian Exchange (EGX).

No.	Company	Reuters Code	Listing Date
1	Acrow Misr	ACRO.CA	15/09/1982
2	Alexandria Spinning & Weaving (SPINALEX)	SPIN.CA	17/09/1995
3	Arab Cotton Ginning	ACGC.CA	08/07/1995
4	Arab Pharmaceuticals	ADCI.CA	06/02/1996
5	Arab Polvara Spinning & Weaving CO.	APSW.CA	20/03/2002
6	Arabian Cement Company	ARCC.CA	24/03/2014
7	Arabian Food Industries DOMTY	DOMT.CA	28/12/2015
8	Cairo Oils & Soap	COSG.CA	05/05/1999
9	Cairo Pharmaceuticals	CPCI.CA	09/04/1996
10	Ceramic & Porcelain	PRCL.CA	10/03/1996
11	Delta Sugar	SUGR.CA	07/04/1992
12	Eastern Company	EAST.CA	27/09/1995
13	Edita Food Industries S.A.E	EFID.CA	10/12/2014
14	Egyptian Chemical Industries (Kima)	EGCH.CA	16/08/1995
15	Egyptian International Pharmaceuticals (EIPICO)	PHAR.CA	27/09/1995
16	El Ezz Porcelain (Gemma)	ECAP.CA	09/12/1998
17	ELSWEDY ELECTRIC	SWDY.CA	18/05/2006
18	Engineering Industries (ICON)	ENGC.CA	19/02/1982
19	GB AUTO	AUTO.CA	07/03/2007
20	Lecico Egypt	LCSW.CA	07/04/1992
21	Misr Beni Suef Cement	MBSC.CA	11/08/1999
22	Misr Chemical Industries	MICH.CA	03/08/1994
23	Modern Company for water proofing (Bitumode)	WATP.CA	24/12/2001

24	Oriental Weavers	ORWE.CA	14/12/1994
25	Paint & Chemicals Industries (Pachin)	PACH.CA	03/08/1994
26	Rubex International for Plastic and Acrylic Manufacturing	RUBX.CA	01/04/1997
27	Sidi Kerir Petrochemicals	SKPC.CA	09/03/2005
28	Sinai Cement	SCEM.CA	03/07/2000

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