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The Impact of Interaction Between Audit Committee and Internal Audit of Enhance the Corporate Governance at Listed Palestinian Companies

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ABSTRACT

Purpose: This paper aims to offer an empirical evidence about the effect of internal audit and audit committee interaction of enhance the corporate governance on listed Palestinian companies.

Design/methodology/approach: A number of questionnaires were sent to chief internal audit executives of 44 listed Palestinian companies, and to enhance the depth of variables measurement tools the questionnaire was sent to 3 accounting professors and high experienced internal auditor at big Palestinian companies to take there feedback about the questions included in questionnaire.

Finding: This paper found that the interaction between audit committee and internal audit have significant positively effect to enhance the corporate governance. And 97% of study sample agreed the direct line of access for internal auditor to audit committee that enhance the corporate governance, at the same percentage the sample was agree that the (the review of internal audit work result, and plane of internal audit by the audit committee was effect the corporate governance).

Value and contribution: To the best of the authors knowledge. This paper fill one of the major topics of auditing literature. This the interaction role between audit committee and internal audit as an institution of internal auditor IIA require. And to measure this interaction on corporate governance.

Keywords: Internal audit –audit committee interaction, corporate governance.

1. INTRODUCTION

Through the last decades, the world has witnessed many financial collapses and administrative scandals that toppled several leading corporates at the global level, such as Enron & Worldcom in the United States.

In addition, the procurement costs – that many researchers have been trying to examining the ability to be reduced as much as possible, and also reducing the severity of the gap between the administration and the owners- has found its match after the emergence of the concept of corporate governance that had a prominent role in identifying better ways to corporate management and regulate the relationship between the executive management of the company and the Board of Directors. (Mahmoud, Osama, and Nassar, Mahmoud 2012). But this organization between the executive authorities and the owners of the company needs a number of committees that emerge from the Board of Directors, to perform its functions to the fullest, such as audit committees, the internal audit department. So, this study aims to examine the effect of the functional relationship and interaction between the audit committees and the internal audit on the Palestinian corporate governance included in the bourse of Palestine. Here, it is good to be mentioned that the effect of audit committees' properties on the tasks of the internal audit was explored by many researchers. (*Adeland Maissa, 2013; Sarens et. al., 2013; Zaman and Sarens, 2013; Abbott et. al., 2010; Barua et. al., 2010; Callaban and Soileau, 2010; Mat Zain and Subramaniam, 2007; Turley and Zaman, 2007; Cahill, 2006; Mat Zain et. al., 2006; Stewart and Kent, 2006; Goodwin, 2003; Dianita, 2015; Widilestariningtyas & Karo, 2016; Uludağ, 2016*).

But, this paper aims to examine the effect of this interaction on the corporate governance. Although the ethical standards of the internal audit functions indicate that the internal auditors should do their role of telling the truth and provisions of the internal control and disclosure of wrong practices committed by the administration. However, internal auditors will be scared if they don't receive enough backing and support from the audit committees, and they will face a kind of moral conflict of telling or hiding the truth about the weakness of monitoring systems, governance, or the company risk management, especially if this truths will negatively affect the profits, position, and the entity of the company, and also if it will affect the career future of the internal auditors, as it might be a reason of losing their jobs. (Al-Hussainy, 2016). Since the internal auditor will not be able to function efficiently without the support of audit committees, we can consider that one of the most important functions of internal audit – which is governance- will (at least) partially stop over without the presence of this interaction between the two parties, although the professional and ethical standards of the internal auditors lead them to play the main role in the company effective governance. (Khelil et. al. 2016). Therefore, the internal auditors will try as much as possible to secure themselves from being expelled or starting a complicated conflict with the company executive management, which is considered a dangerous situation for ant corporate governance.

According to the American Institution of Internal Auditors IIA, internal audit is defined as “The process of objective and independent confirmation, and advisory activities organized to add value to the company in general, in addition to developing the company operational work, and achieving its objectives, through developing an organizer for efficient risk management, monitoring and governance (IIA). Therefore, you can not imagine the inefficiency of the internal auditor, and also its forbidden to expose the internal auditor to any conflict of interest or any exposure to pressure from the administration. So, the goal of having an internal auditors can only be achieved through providing them with protection and supervision by audit committees, which in its turn will enhance the overall corporate governance. For this reason, the starting point of our study is to make the interaction between audit committees and internal auditors the independent factor for this study, whose effect was measured on enhancing corporate governance – the dependent variable of the study. The study sample was also a number of Palestinian companies listed on the Palestine Exchange, noting that the issue of corporate governance is one of the modern and newly emerged threads in Palestine, which gives an importance to this paper.

Based on the previous definition, it has become clear to us that there is a clear and specific criteria for the functions of internal audit issued by the American Institute of Internal Auditors. These criteria that seek to apply a good professional practice for governance. Besides, through its releases, the institute demands for the intervention and supervision of audit committees on the work of internal auditors to be able to apply the internal audit efficiency standards. Where there is a close link between the audit committees properties (Independency, efficiency, professionalism, and experienced members, and the number of meetings) and the extent to which internal auditors apply the international standards for the professional practice of internal auditing ISPPIA (Alzeban 2015). In other words, it considers that the audit committees efficiency is represented in its ability to support the internal auditor, and thus, applying governance principles (Sarens et. al., 2013; mat zen et. al., 2006). The interaction between internal auditors and audit committees represents the basis of the strength of the internal audit functions in monitoring provisions and applying corporate governance. James study (2003) polled perceptions of a number of facilities and loan managers in banks on reporting structure and its impact on the internal auditor ability to prevent adulteration of financial statements. It was found that internal auditors who report to the audit committees are better able to prevent fraud and corruption than the internal auditor who reports to executive management.

Based on the above, the authors of the paper raised two questions in the study: first, (does the internal auditor work under the protection and supervision of the audit committee to achieve governance goals?) and second: (is the achievement of the first question necessarily leads to enhance corporates governance?). This study has added to the theoretical framework of auditing the ability to link the interaction and correlation between audit committees and internal auditor with the level of corporate governance.

Study Objectives

This study aims to measure the effect of the interaction between audit committees and the internal auditor in enhancing corporate governance, based on the fact that internal auditors will face ethical conflict in revealing the truth about any violation of internal monitoring committed by executive administration, and will not tell anyone about this manipulation unless they feel safe and secured as a result of the supervision and support of the audit committees, which consists of non-executive members in the board of directors, and represents the contributors. It also protects the interests of investors. Thus, this study comes to investigate the impact of the supervision and interaction of the two parties in achieving the principles of good corporate governance.

2. RESEARCH BACKGROUND AND LITERATURE REVIEW

2.1. The Interaction of Audit Committees with the Internal Auditor

Audit committees can be defined as one of the most important committees emanating from the Board of Directors, made up of independent non-executive members in the board, who should have enough experience in financial and accounting issues, in addition to the company work nature (Arens et. al. 2013). This committee has a number of tasks such as establishing the rules of corporate governance, improving internal monitoring system, supporting the efficiency and independence of the external auditor, and enhancing the credibility of financial statements in order to achieve the trust of relevant parties (Mahmoud, Osama, Nassar, Mahmoud 2014). It is noteworthy that Palestine is one of the countries that obliged companies through the Palestinian Monetary Authority (PMA) to form audit committees since a short period of time under the

law (189). The PMA illustrated the tasks and duties assigned to the audit committees, since many of these tasks intersects in work and interacts with the Internal Auditor. After the world has witnessed through last decades many financial collapses and administrative scandals that toppled several leading corporates at the global level, such as Enron & Worldcom in the United States, which affected the economies of the countries to which they belong, Many countries have passed laws which recommends listed companies to form audit committees. Thus, the PMA's efforts to pass a law that oblige Palestinian companies to form audit committees, were integral and complementary to these global efforts. Article 192 of the Companies Act of Palestinian has clarified the work guide and tasks of audit committees represented in:

1. Identifying the errors occurred during conducting contributing company affairs, especially by consulting the company internal and external auditors, as well as suggestions to the Board of Directors with respect to correcting these errors.
2. Approving (or not) the transactions and deals conducted with related parties.
3. Proposing internal auditor of the Public Shareholding Company to be appointed by the Board of Directors.
4. Assuring every now and then the independence of the external auditor, and informing the board of directors of the result.
5. Considering the external auditor's reports and making a recommendation to the Board of Directors about these reports.
6. Discussing all difficulties that external auditors face while doing their job (auditing the company's accounts).

And article 194 represented in:

1. Evaluating the efficiency of Financial Officer and all financial management principal members.
2. Studding the internal monitoring system, and developing a written report about its opinion and recommendations in this regard.
3. Studding the financial statements before submission to the Board of Directors and giving its opinion and recommendations in this regard.
4. Studding accounting policies used and giving its opinion and recommendations in this regard.
5. Reviewing the audit plan with the external auditor and giving their notes about it.
6. Reviewing the external auditor notes on the financial statements and following up what is done in this regard.
7. Evaluating the external auditor qualifications, performance efficiency, independency, and then proposing their appointment and determining their fees
8. Reviewing and discussing the internal audit management plan and its efficiency and value.
9. Reviewing all internal audit reports and procedures in this regard.

On the other hand, the internal audit as a concept takes a quick turn of development in terms of academics or companies interest, or in terms of modernization and development in its standards, clauses

and functions, and so, we can see that its confirmatory services provided to the board of directors about governance and monitoring take a wide space. The (Institution of internal audit IIA) has defined internal audit as “an independent objective activity that provides confirmations and advisory services aiming at adding value to the company and improving its operations. Besides, this activity helps improving company operations through a structured approach to systematically evaluate and improve the effectiveness of corporate governance, risk management, and monitoring processes. In addition, the ethical criteria issued by (IIA) lead the internal auditor to play an important role in the internal monitoring processes, and preventing wrong practices committed by the company management through informing related parties and actors.

The impact of audit committees or the impact of internal auditor on governance have not been studied separately in this study, but we examined the impact of the previous two factors on governance together, as studying this relationship between the two parties and bring them into one variable that has been studied in several previous studies such as: (Adeland Maissa, 2013; Sarens et. al., 2013; Zaman and Sarens, 2013; Abbott et. al., 2010; Baruaet al., 2010; Callahan and Soileau, 2010). These studies measured the effect of audit committees characteristics on the efficiency of internal audit functions. However, these studies measured the effect of interaction between audit committees and internal auditor on corporate governance.

It might be that one of the most prominent evidences on the importance of the interaction between audit committees and internal auditor what was mentioned in one of the (IIA's) releases under the title of “The audit committee internal audit oversight”, which included an important examination list on 10 points that must be met in the relationship between the internal auditor and audit committees. As stated in the bulletin, all companies that do not have any of these ten points, have to reconsider its governance. Many of the previous literature on the issue, explicitly confirmed that audit committees play the most important role in corporate governance and supervising the relationship between management and internal auditors, to achieve corporate objectives, and stressed its important role in supporting the internal auditor.

It also indicated the need for a distinctive functional relationship between the internal auditor and the audit committee, which is consistent with Khelil et. al study (2016), who measured the impact of interaction between audit committees and internal auditor through a number of questions (the number of meetings between the two parties, the existence of direct line of communication between them, the audit committees' authority in hiring and ending the internal auditor services, in addition to reviewing the results of the internal auditor's report by the audit committees). The results of this study showed that there is a positive relationship of a significant impact between the existence of a direct line of communication between the internal auditor and audit committees to promote and encourage the auditor ethics, and the ability to report on violations committed by the administration, and thus enhancing corporate governance. However, this study showed that there is no a positive relationship between meetings number of internal auditor with audit ommittee to promote the ethics of the Internal Auditor.

In addition, the (Financial reporting council FRC,2012, Guidance on audit committee, FRC 2014, UK corporate governance code) mentioned that the audit committees' responsibilities are to arrange a direct communications with internal auditor, without the executive management interference, at least one a year, and to provide appropriate and enough support for the internal auditor. It has become clear from the Institution of internal audit IIA definition. As it has become clear from the American Institution of Internal Auditors IIA's definition for internal audit that it is an objective and independent activity that provides confirmations and advisory services to add value to the company in general, in addition to develop

its operational work, and achieving its objectives, through follow a structured approach to systematically evaluate and improve the effectiveness of corporate governance, risk management, and monitoring processes. It also has become clear that internal auditor functions and tasks need the audit committee intervention and support. Also, the ethical standards of internal auditing lead the internal auditor to take important role in the internal monitoring processes and prevent malpractices and fraud committed by management, and try to prevent it by informing competent authorities and persons related to governance about those practices. However, internal auditor will continue to face an ethical conflict especially when revealing the truth about the administration's violations and excesses has a negative impact on the company financial position & profitability or sustainability. As (Khelil *et. al.*, 2016) reported, internal auditors will keep their fears about losing their jobs if their recruitment decision goes for the board of directors and not the audit committee. Although many studies highlighted that internal auditors should keep good and ethical practices even under pressure, but this paper focuses on the importance of audit committees in supporting internal auditors in order to make them more objective and capable to apply monitoring and governance practices. Therefore, it is truly necessary to focus on the relationship between one of the committees related to applying corporate governance, namely "the Audit Committee", and internal auditors, as this relationship is important to strengthen the internal audit task, in order to achieve its objectives, according to internal audit charter issued by the American Institute of Internal Auditing (IIA) based on many studies and researches (Alzeban, 2015; Zaman and Sarens, 2013). (Abbott *et. al.*, 2012) who polled 1,000 companies, reported that audit committees who supervise internal auditing the most, allocate more hours for internal auditing. The study also showed a contrast between the internal audit budgets in a number of companies, and that the biggest part of internal audit's budget is spent on internal monitoring activities. This is consistent with (Gerrit Sarens, 2007) study, which indicated that audit committees must support internal auditors to perform and fulfill their tasks and functions, in addition to maintaining internal auditors' independency and to guarantee that their decisions are not linked to the senior management interference and recommendations. (Mahmoud, Osama, Nassar, Mahmoud, 2014) opinion was that audit committees in Palestinian companies help maintaining internal auditors' independence, and that audit committees' guideline helps clarifying the relationship between management, audit committees, in addition to internal and external auditors.

(Khelil *et. al.*, 2016; Zaman and Sarens 2013) reported that governance tasks assigned to audit committees are summarized in managing the relationship between management and internal auditors, and in supporting internal auditors. They also pointed to the need for a strong work relation between audit committees and internal auditors to enhance corporate governance. As highlighted by (Mat Zain *et. al.*, 2006: Allegreni *et. al.*, 2006), internal auditing functions and tasks receive a strong support from audit committees in order to be more compatible with international standards for the professional practice of internal auditing, as the big number of meetings between the two sides makes internal auditors more independent from the executive management, more objective and more able to spread work ethics, to be applied within decision-making process, in addition to making internal auditors more powerful and capable of practicing monitoring and governance. By reviewing the audit committees' tasks guideline in the Palestinian Companies Law, we find that there is a need to have a functional relationship, sharing, interaction, and supervision between audit committees and internal auditors. As it can be seen, there are many tasks that audit committees share with internal auditors. And so, the starting point for the study has come up from the relationship between the two parties, which was raised in numerous research and previous studies such as (ALzeban, 2015; Zaman and Sarens, 2013), which indicated the necessity of creating a functional interaction between audit committees

and internal auditors. Where the authors raised the questions: is the needed interaction between the two parties existed and applied in Palestinian companies? Is the Palestinian Capital Market Authority monitors the presence of interaction between the two sides? Does this interaction has a positive effect on enhancing governance? As this interaction between audit committees and internal auditors in the functional work is the independent variable for this study, while the dependent variable is corporate governance. The two researchers measured the impact of the interaction between internal auditors and audit committees on enhancing corporate governance within Palestinian companies included in the Palestine Exchange.

2.2. Corporate Governance

Corporate Governance is briefly defined as the way in which companies are managed to achieve a higher level of monitoring & control, and preventing administrative irregularities, as the corporate governance system maintains a fair distribution of rights and duties for all the system members. The concept can also be defined through Adrian Cadbury's report, as "the system by which companies are managed, and which provides administrative plans to achieve companies' objectives and monitoring its administrative performance. The report pointed to the need for a relationship between all stakeholders in the company, including the board of directors' committees, management, shareholders, and external auditor. Besides, the (IIA) has defined corporate governance as "an operation used by the board of directors to supervise the company activities, so that to achieve its goals (IIA, 2009).

Palestine Capital Market Authority (the governmental entity authorized to supervise and monitor corporate governance) has defined corporate governance as "the mechanisms and processes that explain the relationship by which companies are managed, and that provides the stakeholders (shareholders, owners, lenders) with the mechanism with which companies are being run by the company's executive management, through activating mechanisms of full transparency and clarity regarding the company operations.

In 2006, the (IIA) issued its report (the Internal Audit Guideline) in which it pointed that by applying governance standards, companies can achieve their objectives, through making management more efficient from on one hand, and on the other hand making accountability more accurate. This of course reflects on stakeholders satisfaction (IIA, 2006). This global trend towards establishing standards, codes, and rules for the sake of applying good corporate governance, has encouraged many governments and professional councils to issue reports and studies that focus on the importance of issuing laws, standards, and legislations to apply and practice governance, such as those applied in Palestine, when the "Palestine Capital Market Authority" issued the Corporate Governance Code, and seeks to put it within a legal framework. Here, it is worthy to be mentioned that there is a Palestinian law that oblige audit committees with a set of practices that guarantee a good implementation of governance. But this law relates only to the audit committees, which are considered a part of committees systems to which governance is assigned, as many authorities consider this law as an introduction to governance implementation, but not enough. Here, all see the Corporate Governance Code issued by the "Palestine Capital Market Authority should turn into a binding law for companies. Nevertheless, the Palestinian listed companies have taken bold steps to implement the rules of this Code, as we can note that audit committees are committed to fulfill their tasks and duties.

The Palestine Capital Market Authority (PCMA) gave attention to another aspect of governance, which is disclosure, as it considered the Agency Theory and conflict of interests as the main engine and reason behind the financial data invalidity, and the motive of malpractices committed by companies' managements.

Therefore, the (PCMA) has formed an indicator to measure the companies' websites performance, as those websites represents the main resource for disclosure and revealing truths about the company financial center for all users and stakeholders.

In general, corporate governance measuring depends on many mechanisms and indicators that researchers and academics have divided into internal and external mechanisms, in order to measure governance. To measure the dependent variable (corporate governance) this study depends on internal dimensions of governance relating to the board of directors, the audit committee, management and external auditor efficiency, and many emanating from the Board of Directors committees such as audit committees and many other BoD's committees, such as audit, bonuses, and nominating committees (Madhani, 2015).

Urquhart (2016) sees that corporates governance is a set of internal monitoring procedures and policies that protect investors from the negative effects of management personal interests. He also believes that measuring governance consists of a number of mechanisms, including the independence and size of the Board of Directors, ownership structure in companies, and not to monopolize properties. Governance can also be measured by high efficient audit committees (he defined the characteristics of an efficient committee), in addition to nominating and bonuses committees in the company, so that management can not take control over the company money, for instance by allocating high salaries for themselves. Another measurement for governance is the availability of a high level of efficiency for internal auditing. This is consistent with a large part of the method of measuring the independent variable of this study (which is corporate *governance*).

2.3. Design of Study and Hypothesis

With its general concept, and as previously defined, corporate governance is considered the system by which companies are managed, as it explicitly assigns audit committees the task of governing the relationship between management and internal auditor. Also, many studies and reports have assigned audit committees the task of supporting internal auditors, and creating a big functional relationship with them, in order to guarantee an efficient corporate governance implementation (Alzaban, 2015; Zaman and Sarens, 2013). In other words, we can see that companies in which internal auditor receives a strong and serious support from audit committees, have internal audit departments that are more capable of implementing monitoring (Lin *et. al.*, 2011 ; Stewart, 2007; Allegrini *et. al* 2013).

According to Alzaben (2015), audit committees are considered an important tool that has the ability to achieve companies' objectives through the independency of internal auditing. He also added that the nature of interaction between audit committees and internal auditors has an important effect on the internal auditing efficiency, as it helps increase the internal auditor's ability to apply the "International Standards for the Professional Practice of Internal Auditing (ISPPA)", stated by the American Institute of Internal Auditing (IIA). Besides, this interaction helps internal auditor to report on violations, errors and frauds committed by the management, as the independency of the internal auditors refers to their relationship with audit committee, and that audit committees have an important role in governing the relationship between internal auditors and both management and external auditor (Lin *et. al*, 2011). (Tylor, 2009) pointed to the fact that a good relation between internal auditor and audit committees is required to achieve a good level of governance. Any way, the relation between internal auditor and audit committees is a wide

concept. However, in this paper, and to measure this relationship, the researchers – guided by (Khelil *et. al.*, 2016; Alzeban, 2015; Raghunandant *et. al.*, 2001)- focus on a set of points, some of which relates to the relationship, some relates audit committees supervision on internal auditor, where the two researchers raised the difference between relationship and supervision, since the audit committees' supervision on internal auditor could lead to achieve its objectives, but it will remain incomplete without the presence of a functional, participatory, and interactive relationship. Meaning that supervision alone keeps the internal auditor in the circle of fear, suspicion, and responsibility, but the so-called supervisory relationship makes internal auditors feel themselves as advisers and partners achieving the company objectives, since there must be a conviction among audit committees that the role of the internal auditor is to add value to the business through implementing risk management, governance and monitoring according to the (IIA).

Based on the above, the relationship between audit committees and internal auditors (which is the independent variable of the study) was measured through a number of questions that measure both parties interaction such as: (the number of meetings between audit committees and internal auditors, the existence of a direct line of communication to the Internal Auditor with audit committees without the intervention of the administration, reviewing the programs, plans, and work results of the internal auditor by audit committees, the intervention of audit committees in decisions relating to the appointment and dismissal of internal auditors, and reviewing the relationship between internal auditors and administration by the audit committees).

A set of questions were designed for a questionnaire that was sent to a number of internal auditors in Palestinian companies. In designing those questions, the researchers depended on two points: first, a set of previous studies such as (Khelil *et. al.*, 2016; Alzeban, 2015; Raghunandant *et. al.*, 2001). Second: the important checklist included in the bulletin titled (The audit committee, internal audit oversight issued by the IIA. This list contains a set of points that must be available in companies, in order to achieve a good relationship and a high functional interaction between internal auditor and audit committees. The bulletin also indicated that any company that does not apply to these points, has to reconsider its audit committees supervision efficiency on internal auditors. A number of academics and experts in the field of accounting were consulted to edit and review the questionnaire, in order to give more credibility to the study tool. Also, we asked for the help of high experienced internal auditor at big Palestinian companies to take their feedback about the questions included in questionnaire. The dependent variable (corporate governance) has been measured with a number of internal mechanisms, such as measuring the efficiency of audit committees, external auditors and management. Thus, the goal of this study can be achieved by measuring the impact of the interaction between audit committees and internal auditors in strengthening the governance of Palestinian companies, and to achieve this goal, the study's hypothesis is as follows:

There is no effect of interaction between audit committees and internal auditors in strengthening the governance of the Palestinian companies.

3. STUDY DESIGN

3.1. Study Model

To build the study model and collect needed data we depended on the questionnaire, which consists of two parts: the first was designed to discover the samples' general and personal characteristics, and it included

five questions. The second part was divided into two parts: the first included fifteen questions to measure the interaction between audit committees and internal auditor, while the second part included fourteen questions to measure the dependent variable (corporate governance). Questions of this part divided into a number of groups. questions 1-5 focused on measuring committees formed by the board of directors, questions 7-4 focused on measuring the board of directors efficiency, 11-7 came to measure the executive management and internal auditor, 12-11 to measure the external auditor, 16-12 to measure ownership rights structure and ownership monopolization. The three-dimensional "Likert scale" was used to determine the degree of the respondents' response, and then turn it into quantitative data so that it can be statistically measured. The study population consisted of 64 public shareholding companies listed on the Palestine Exchange according to its data (until the date of starting this research). Respondents included the internal auditors of these companies, as 40 questionnaires were distributed, and 37 were collected. With regard to data analysis it has been processed using the statistical software package (spss). To describe the study sample, descriptive and analytical methods have been used to process the data, such as repetition and percentages.

3.2. Study Variables

Many previous studies were used to identify and measure the independent variable (interaction between internal auditor and audit committee) (Khelil et. al., 2016; Alzeban, 2015; Raghunandant et. al., 2001). Also, the checklist included in the bulletin titled (The audit committee, internal audit oversight issued by the IIA was used to measure the relationship between internal auditor and audit committees. The dependent variable (corporate governance) was measured with a set of questions relating to the efficiency of audit committees, external auditors and management, depending on a number of previous studies such as (Madhani, 2015; urghart 2016; Baatwah et. al., 2015; ogbonnaya et. al 2016).

3.3. Collecting Data

The study sample consisted of 46 Palestinian company inserted in the Palestine Exchange. 37 questionnaires were collected out of 41 distributed to internal auditors in sectorally-distributed companies: (Industry, services, financial institutions and the banks) in varying proportions. The questionnaires questions consists of two parts: the first is to measure interaction between internal auditor and audit committees, while the second part consisted of questions that aim to measure corporate governance. Regarding the questions, they were designed in cooperation with two lecturers (holders of MA and PHD degrees in accounting) in Palestine Technical University. In addition to seeking the help of some experienced internal auditors and academics (PHD in accounting) in order to enhance the credibility of the study tool.

4. ANALYZING RESULTS AND TESTING HYPOTHESES

4.1. Findings

For data analysis we used descriptive statistics to extract the arithmetic mean, while to describe the variables of the study, we used standard deviation and percentages, and Pearson Correlation. The first part was allocated to find out the most important characteristics of the audit committees and internal auditors efficiency in promoting corporate governance for companies listed on the Palestine Exchange. Table 1 presents the descriptive results of this questionnaire part, from the perspective of internal auditors in companies listed

on the Palestine Exchange. As mentioned before; 37 questionnaires were collected out of 41 distributed, and one was excluded due to incomplete answers.

Table 1

Shows the Cronbach's alpha test; and the result show that the questionnaire reliability and validity is 0.828 for the first, and 0.596 for the second. Coefficient (Cornbach alpha) for all the questionnaire paragraphs and questions is 0.732, which is considered a good result that represents the questionnaire reliability and validity

	<i>Cronbach's Alpha</i>	<i>N of Items</i>
The first axis: questions to measure the interaction between audit committees and internal auditors in the company	.828	13
Axis II: Questions for measuring corporate governance	.596	14
Grand Total	.732	27

Table 2

Arithmetic means and standard deviations for the effect of interaction between audit committees and internal auditors to enhance corporate governance

<i>Paragraph</i>	<i>No</i>	<i>Neutral</i>	<i>Yes</i>	<i>Mean</i>	<i>S.D</i>	<i>%</i>
2. There is a direct line of communication with the Internal Auditor of the Audit Committee at the Company	0.0%	2.8%	97.2%	2.97	.17	99.1
4. The Audit Committee reviewed the results of the work and the report of the internal auditor periodically and examine it	0.0%	2.8%	97.2%	2.97	.17	99.1
6. Did the Audit Committee in the company considers the Internal Audit Department can add value to the company and minimize risk and tighter control of operations Corporate Governance	0.0%	2.8%	97.2%	2.97	.17	99.1
13. The Audit Committee of the company review the audit plan established by the Internal Audit Department	0.0%	2.8%	97.2%	2.97	.17	99.1
8. Do you know the Audit Committee functions and responsibilities of the internal auditor as the strengths and weaknesses of the currency and supervised by constantly	0.0%	5.6%	94.4%	2.94	.23	98.1
10. Audit committees are trying to strengthen the supervision of the Internal Auditor on oversight and governance	0.0%	5.6%	94.4%	2.94	.23	98.1
1. A regular meeting between the audit committee and internal auditors in your company	2.8%	5.6%	91.7%	2.89	.40	96.3
7. Do audit committees review regular basis of the relationship between the internal auditor and management and examine the independence of the internal auditor continually in the company	0.0%	11.1%	88.9%	2.89	.32	96.3
9. Did the Audit Committee shows explicitly in her blog, the scope of the relationship between them and the Internal Audit Department	0.0%	11.1%	88.9%	2.89	.32	96.3
11. Did you inform the internal auditor of the Code of the Audit Committee for their commitment	0.0%	11.1%	88.9%	2.89	.32	96.3
3. The Audit Committee discussed the company's internal auditor, which takes it into consideration when developing the audit plan risks	0.0%	13.9%	86.1%	2.86	.35	95.4

Paragraph	No	Neutral	Yes	Mean	S.D	%
5. Is there any authority for the Audit Committee in decisions relating to the appointment and the isolation of the Internal Auditor	2.8%	11.1%	86.1%	2.83	.45	94.4
12. Does the audit committees foster the culture that there is an added value of the Internal Auditor in the provisions of the internal control and risk assessment, governance and the delivery of that concept to all employees the company to replace any misconnect	0.0%	16.7%	83.3%	2.83	.38	94.4
The first axis: questions to measure the interaction between audit committees and internal auditors in the company				2.91	.17	97.1

As indicated by Table 2, the statistical analysis results show that all surveyed groups see that the interaction between audit committees and internal auditors enhances the corporate governance, as the overall average for the opinions of categories covered by the study has exceeded the premise average (2), reaching 2.91, with standard deviation of 0.17 and percentages 97.1%.

As it clear in Table 2, we can see that the two paragraphs which state that: * there is a direct line of communication between the Internal Auditor and the Audit Committee at the Company, * and that he Audit Committee reviews the work results and internal auditor’s report periodically and examine it, have received the highest averages, as the average for each is equal to 2.97, the standard deviation for both is 0.17. This indicates that audit committee is keen to increase interaction and communication, in addition to check and review the internal auditor’s work and reports, in order to promote good governance in the company.

Table 1 shows that the paragraph states that “the audit committees work to foster the culture that there is an added value of the Internal Auditor in the provisions of the internal control and risk assessment, governance and the delivery of that concept to all employees the company to replace any misconnect about the role of the internal auditor”, and the paragraph states “if there is any authority for the Audit Committee in decisions relating to the appointment and the isolation of the Internal Auditor, have received the lower averages that equals 2.83, and standard deviation of 0.45 for the first paragraph & 0.38 for he seconded, but its arithmetic average is higher than the premise average (2).

Table 3
Arithmetic averages and standard deviations to measure governance in companies listed in Palestine Exchange

Paragraph	No	Neutral	Yes	Mean	S.D	%
14. Is there a disclosure of membership or the presidency of the Board of Directors of other companies of the members and Chairman of Board of Directors	0.0%	2.8%	97.2%	2.97	.17	99.1
8. A proper and homogeneous and integrated of skills and experience on the board lineup	0.0%	5.6%	94.4%	2.94	.23	98.1
13. Is there full disclosure of the ownership shares of members of the Board of Directors	0.0%	8.3%	91.7%	2.92	.28	97.2
7. The members of the Board of Directors have sufficient experience and knowledge.	0.0%	8.6%	91.4%	2.91	.28	97.1

<i>Paragraph</i>	<i>No</i>	<i>Neutral</i>	<i>Yes</i>	<i>Mean</i>	<i>S.D</i>	<i>%</i>
10. The four meetings or holding more meetings of Board of Directors on an annual basis	0.0%	11.1%	88.9%	2.89	.32	96.3
12. Is there full disclosure of the bonuses Board of Directors	2.8%	11.1%	86.1%	2.83	.45	94.4
11. There is a separation between the post of Director-General and Chairman of the Board	11.1%	5.6%	83.3%	2.72	.66	90.7
3. The formation of an audit and risk committee of the company is an effective and functioning to the fullest	5.6%	19.4%	75.0%	2.69	.58	89.8
6. The Board of Directors is composed of independent members	5.7%	22.9%	71.4%	2.66	.59	88.6
9. The members of the Board of Directors have enough time to work effectively	2.8%	30.6%	66.7%	2.64	.54	88.0
2. A equivalents committee was formed in the company and is an effective and functioning to the fullest	11.1%	22.2%	66.7%	2.56	.69	85.2
1. A committee was formed in the company's nominations are an effective and functioning to the fullest	13.9%	22.2%	63.9%	2.50	.74	83.3
4. A committee was formed in the company's corporate governance and it is an effective and functioning to the fullest	5.6%	44.4%	50.0%	2.44	.61	81.5
5. The formation of other committees other than those mentioned earlier (If yes please mention the name)	69.4%	0.0%	30.6%	1.61	.93	53.7
Axis II: Questions for measuring corporate governance				2.65	.24	88.4

As indicated by Table 3, the statistical analysis results for the second part of the questionnaire show that all surveyed groups, that the overall rate of the arithmetic average of all paragraphs is 2.65, which is a high average, which indicates the presence of good corporate governance in companies listed in the Palestine Exchange, and that the overall standard deviation is 0.24, and 88.4 for percentages.

Statistical analysis in table (3) show that the paragraph states that “there is a disclosure of membership or the presidency of the Board of Directors of other companies of the members and Chairman of Board of Directors, has received the highest arithmetic average (2.97) and standard deviation 0.17. Also, the paragraph states that “there is an integrated heterogeneous mix of skills and experience on the board of directors lineup has received arithmetic average of 2.94 and 0.23 for standard deviation.

The paragraph that has received the lowest arithmetic average (1.61) which is lower than the premise average (2) is the one that states that “The formation of other committees other than the main three committees: nomination, bonuses, risk & internal audit committees. The standard deviation of this paragraph is 0.93, which indicates a high level of dispersion in answers, as its standard deviation has exceeded the half of its arithmetic average. Statistical results have also shown the arithmetic average of forming the main four committees: (nomination, bonuses, risk & internal audit, and governance committees):

- The arithmetic average of the paragraph about forming the nomination committee is 2.50, and standard deviation is 0.74
- The arithmetic average of the paragraph about forming the bonuses committee is 2.83, and standard deviation is 0.45
- The arithmetic average of the paragraph about forming the risk & audit committee is 2.69, and standard deviation is 0.58

- The arithmetic average of the paragraph about forming the risk & audit committee is 2.44, and standard deviation is 0.61

This indicates that the majority of companies form the main four committees which enhance corporate governance. Regarding the formation of additional committees, the analysis shows that most companies do not form any other committees. Table 4 shows the additional committees formed and their recurrence.

Table 4
Additional formed committees and companies' number

<i>Additional Committee</i>	<i>Number of Companies</i>
Executive committee	3
Financial committee	1
Procurement Committee	1
Investment committee	1

4.2. Testing Hypothesis

Null hypothesis was formulated and tested. Table 5 below shows the results:

H0: There is no effect for the interaction between audit committees, and internal auditor on enhancing corporate governance.

Table 5
Pearson correlation coefficient & indication level

<i>Correlations</i>	<i>Axis II: Questions for measuring corporate governance</i>
The first axis: questions to measure the interaction between audit committees and internal auditors in the company	Pearson Correlation .335*
	Sig. (2-tailed) .046
	N 36

*Correlation is significant at the 0.05 level (2-tailed)

Testing results show that Pearson correlation coefficient is 0.335, which is a positive value. This indicates that there is an effect for the interaction between audit committees and internal auditor in enhancing corporate governance, and that indication level is 0.046, (which is lower than 0.05. accordingly, we refuse the null hypothesis, which states that “There is no effect for the interaction between audit committees, and internal auditor on enhancing corporate governance, and we accept the Alternative hypothesis; that thee is there is an effect for the interaction between audit committees and internal auditor in enhancing corporate governance in companies listed in the Palestine Exchange.

4.3. Results and recommendation

In the light of data analysis and testing hypothesis, we can summarize the study results in the following:

1. There is an interaction between audit committees and internal auditor.
2. The interaction between audit committees and internal auditor enhances corporate governance.

3. Companies listed in the Palestine exchange are committed to form main committees that enhances good governance at companies: (nomination committee, bonuses committee, audit and risk committee, and governance committee).
4. Most companies do not form any other committees than the main four.

Recommendations

1. The researchers recommend that Monetary Authority issues regulations and various releases that clarifies the importance of commitment to corporate governance, and the extent to which efficient audit committees affects achieving corporate governance.
2. We recommend that Palestinian companies take in considerations not to expose internal auditors to pressure from the management, through encouraging audit committees to support internal auditing, in addition to highlight the role of audit committees to spread the culture that internal auditor is not an accounts tester, but also a provider of confirmation services to operational and administrative activities in the company, in order to add value to the company and achieve its objectives.
3. We recommend that internal auditor to establish an internal auditing council, and keep up with international standards of internal auditing. We also recommend that the Palestinian law oblige companies to follow international internal audit standards, as it is important in enhancing corporate governance, and hence economic development.
4. We recommend academics and researchers to study the effect of the interaction between audit committees and internal auditing (the independent variable of this study) on reducing the agency costs, and profits quality to enhance this study results.
5. We recommend that the Palestine Monetary Authority (as the governmental entity authorized to apply governance) to issue and disseminate regulation on its blog, including a number of transactions and functional partnerships with audit committees, and that these transactions should be mandatory according to some laws or legislations.
6. We recommend that companies form additional committees, and don't be restricted to the minimum number of committees stated in the Palestinian institutional governance code.

5. CONCLUSION

The interaction between audit committees and internal auditors is considered one of the important booster for governance, and it has been defined and measured by a number of aspects such as regular meetings between audit committees and internal auditors, communication lines between them, reviewing the internal auditor work by the audit committees and controlling their appointment and dismissal. The study results have shown that interaction between audit committees and internal auditors enhances corporate governance, as the study results indicates that there is statistically significance relationship between audit committees and internal auditors in enhancing corporate governance, which leads us to refuse the only null hypothesis of the study, and approving the alternative hypothesis. We can say the real value this study add to the previous study, that previous studies measured the effect of audit committees or the internal auditor efficiency on corporate governance separately, while this study measures the effect of the interaction between the two sides on enhancing governance.

Besides, future researchers and scholars can use the results of this paper in connecting its independent variable with other factors, (other than corporate governance), such as the external auditing quality, or reducing the agency costs, managing profits, creative accounting, or the financial statement quality.

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Appendix 1
Questionnaire

#	<i>First axis: questions to measure interaction between audit committees and internal auditor in the company</i>	<i>Yes</i>	<i>Neutral</i>	<i>No</i>
1	There is a regular meeting between audit committee and internal auditor in your company.			
2	There is a direct communication line between audit committee and internal auditor in your company.			
3	The audit committee discusses the company risks as identified by the internal auditor, and take them into consideration when developing the audit plan.			
4	The audit committee review and discusses the internal auditor’s work results on a regular base.			
5	The audit committee has an authority to make decisions related to appointing or dismissing internal auditors in the company.			
6	Audit committee consider that the internal auditing department in your company adds value to the company in corporate governance, reducing risks, and monitoring provisions on operational activities.			
7	Audit committees regularly reviews the relationship between internal auditor and management, and constantly check the independency of internal auditor.			
8	The audit committee knows and constantly supervise the internal auditor tasks and responsibilities, in addition to identifying their strengths and weaknesses.			
9	In its Code, the audit committee explicitly indicates the scope of the relationship with the internal auditing department.			
10	Audit committees try to enhance the internal auditor’s supervision on monitoring and governance.			
11	Internal auditors check out the Audit Committee Code to commit themselves to it.			
12	The audit committee fosters the culture that there is an added value of the internal auditor in the provisions of the internal control and risk assessment, governance and the delivery of that concept to all employees in the company to replace any misconnect about the internal auditor role.			
13	The audit committee in your company reviews the audit plan developed by the internal department.			
	Axis (2): questions to measure corporate governance			
	A nomination committee was formed in your company, and it is now effective and functioning to the fullest.			
	A bonuses committee was formed in your company, and it is now effective and functioning to the fullest.			
	An audit and risk committee was formed in your company, and it is now effective and functioning to the fullest.			
	A governance committee was formed in your company, and it is now effective and functioning to the fullest.			
	Additional committees (other than the above mentioned) were formed (if yes, please nominate the committee name).			
	1. 2.			

#	<i>First axis: questions to measure interaction between audit committees and internal auditor in the company</i>	<i>Yes</i>	<i>Neutral</i>	<i>No</i>
	The board of directors consists of independent members.			
	Board members have sufficient knowledge and experience.			
	From your perspective, there is an integrated harmonized mix of skills and experience on the board of directors lineup.			
	Board embers have enough time to work effectively.			
	Four or more board meetings are conducted annually.			
	There is a separation between the position of Director-General and the Chairman of the Board.			
	There is a full disclosure of the Board bonuses.			
	There is a full disclosure about the stocks ownership. of the board members.			
	There is a disclosure about the board members' other memberships in other companies.			

Appendix 2

The check list of points that represent the audit committees supervision on internal auditor

1. The audit committee engages in an open, transparent relationship with the chief audit executive (CAE).	6. The audit committee addresses with the CAE all issues related to internal audit independence and objectivity.
2. The audit committee reviews and approves the internal audit charter annually.	7. The internal audit activity is quality oriented, and has in place a Quality Assurance and Improvement Program.
3. As a result of discussions with the CAE the audit committee has a clear understanding of the strengths and weaknesses of the organization's internal control and risk management systems.	8. The audit committee regularly communicates with the chief audit executive about the performance and improvement of the CAE and the internal audit activity
4. The internal audit activity is sufficiently resourced with competent, objective internal audit professionals to carry out the internal audit plan, which has been reviewed and approved by the audit committee.	9. Internal audit reports are actionable, and audit recommendations and/or other improvements are satisfactorily implemented by management
5. The internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.	10. The audit committee meets periodically with the CAE without the presence of management