



ΕΛΛΗΝΙΚΗ ΔΗΜΟΚΡΑΤΙΑ
Εθνικόν και Καποδιστριακόν
Πανεπιστήμιον Αθηνών
— ΙΔΡΥΘΕΝ ΤΟ 1837 —

ΣΧΟΛΗ ΟΙΚΟΝΟΜΙΚΩΝ ΚΑΙ ΠΟΛΙΤΙΚΩΝ ΕΠΙΣΤΗΜΩΝ
ΤΜΗΜΑ ΟΙΚΟΝΟΜΙΚΩΝ ΕΠΙΣΤΗΜΩΝ

Πρόγραμμα Μεταπτυχιακών Σπουδών

«ΕΦΑΡΜΟΣΜΕΝΗ ΔΙΑΧΕΙΡΙΣΗ ΚΙΝΔΥΝΩΝ»

ΔΙΠΛΩΜΑΤΙΚΗ ΕΡΓΑΣΙΑ

**How the Strength of the Internal Audit can
affect the Performance of the company**

ΠΕΠΠΑ ΜΑΡΙΑ

ΕΠΙΒΛΕΠΟΥΣΑ ΚΑΘΗΓΗΤΡΙΑ
ΚΟΥΡΑΝΤΗ ΦΡΑΓΚΩ

ΑΘΗΝΑ
ΣΕΠΤΕΜΒΡΙΟΣ, 2022



HELLENIC REPUBLIC

**National and Kapodistrian
University of Athens**

— EST. 1837 —

**FACULTY OF ECONOMICS AND POLITICAL SCIENCES
DEPARTMENT OF ECONOMICS**

**MASTER IN APPLIED RISK
MANAGEMENT**

INTERNAL AUDIT

DISSERTATION THESIS

**How the Strength of the Internal Audit can
affect the Performance of the company**

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SEPTEMBER, 2022

Abstract

This study examines how the financial performance of a company can be affected by the quality of its internal audit department. We solely focused on internal auditors of Greek organizations and the data were collected via questionnaires on internal auditors and financial reports of the companies. The response rate was 51% and the variables used to determine the quality of the internal audit department, were Objectivity & Independence, Knowledge & Competence and Work Performance & Monitoring and Controls. The Spearman's correlation method was used to test our hypothesis, and findings showed that Internal Audit's strength has a positive correlation on the Financial Performance of a company. Concluding that, Internal Audit does add value to a company.

Key Words: Internal Audit, Financial Performance, Objectivity & Independence, Knowledge & Competence, Work Performance & Monitoring and Controls.

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List of Abbreviations

Abbreviations	Definition
AC	Audit Committee
BoD	Board of Directors
CAE	Chief Audit Executive
CIA	Certified Internal Auditor
CICA	Certified Internal Control Auditor
COSO	Committee of Sponsoring Organizations
IA	Internal Audit
IIA	Institute of Internal Auditors
IAE	Internal Audit Executive
IPPF	International Professional Practices Framework
IIIA	Hellenic Institute of Internal Auditors

Introduction

The role of the Internal Audit has shifted over the years, today Internal Auditors add value by helping the organizations improve. This study establishes exactly that. In particular, we examine how the strength of the Internal Audit can affect the Performance of the company. This study aims to investigate the factors that measure the Internal Audit effectiveness: Objectivity & Independence, Knowledge & Competence and the Work Performance & Monitoring and Controls, through the views of 51 internal auditors in 8 companies, in regard to the companies' Financial Performance. Thirty-one statements were developed according to the International Standards and with the assistance of previous studies (Obeid Ahmed Obeid, 2007- Sudan, Wanyama, Odoyo & Bongonko, 2018 – Kenya) for all the respective variables and were analyzed with the Financial Performance of the companies, established by the review of the financial results on 31/12/2021.

The results of the research revealed a positive correlation for the statements and in consequence for the factors measuring the strength of the Internal Audit, in accordance to the Financial Performance. Only two statements that of “The head of the internal audit department is appointed by the company's board of directors.” and for the statement “I consider that the number of members of the company's internal audit department is satisfactory for the scope of the audit” the correlation was found negative.

The specific study, up to my knowledge was the first of its kind that was conducted in Greece. Limitations of the results were also acknowledged and certain recommendations were provided. Finally, brief key points in history of Internal Audit in Greece were reported.

A. Theoretical Part of the study

In this chapter we focus on the theoretical part of the study. Firstly, we establish what Internal Audit is, its principles and its role in the company. Then we present the factors that measure Internal Audit effectiveness which are also - the key variables to our study. Finally, an overview on how Internal Audit has been developed in Greece and its major moments is presented.

A.1 Internal Audit

Internal Audit has been around for many years. After the industrial revolution in the early 20th century, with the development of many organizations, the necessity of Internal Audit increased. In 1941 the Institute of Internal Auditors (IIA) was established, an association of internal auditors that provide guidance around the Internal Audit profession and developed the International Standards for the Professional Practice of Internal Auditing. According to the latest definition they provided in 2004, internal audit is “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, discipline approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Institute of Internal Auditors, 2004) Internal Audit Function has changed over the years in order to adapt in a fast-paced environment. Traditionally, Internal Audit function focused on activities to help staff and management in performing their duties and ensures adequate internal control. The focus has shifted so that “Internal Audit function adds value, improves the operations of the organization and evaluate and improve the effectiveness of the organization’s risk management, control and governance processes.” (Goodwin, 2004)

One major milestone was that in 2002 the Sarbanes-Oxley Act passed in the U.S.A., a law for protecting investors from fraudulent activities regarding financial reporting, an answer to corporate failures that happened the previous years. The Sarbanes-Oxley Act are laws and regulations that companies have to follow under the umbrella of corporate governance mechanisms.

A.2 Factors affecting the Internal Audit Quality

There have been various studies depending on the factors that measure the Internal Audit Effectiveness. For the present study we obtain the views of internal auditors on the factors: Objectivity & Independence, Knowledge & Competence and Work Performance & Monitoring and Controls, which are analyzed below according to the International Standards of Auditing.

A.2.1 Objectivity & Independence

One of the main factors affecting the Internal Audit Quality, is Objectivity & Independence. In order for the internal auditors to conduct their work effectively, Objectivity & Independence is a condition that should not be lacking. The IIA recognizes the factor of Objectivity & Independence into two separate segments. On the one side there is the Organizational Independence where it is stated that “the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities”. (International Standards of Auditing, 1110) Meaning that “the internal audit department needs to report to a level of authority in order to provide them with the appropriate level of internal auditing coverage and being able to act upon findings and recommendations”. (COSO Framework, 1992) “The chief audit executive must communicate directly with the board and its Audit Committee”. (Standards, 1111) The relationship between the chief audit executive (CAE) and the Board of Directors is a strictly reporting relationship.

According to the Standards, the CAE, at least on an annual basis, needs to report the organizational independence of the internal audit function. “The CAE must report to the board and senior management on the internal audit activity’s purpose, authority, responsibility and performance relative to its plan”. (Standards, 2060). This is clarified in order for their objectivity and independence not to be impaired because internal auditors are employees within the organization and are not independent from the entity. Highlighting the importance of the reporting level of the internal audit department, we should mention that external auditors often use the organizational level that the internal auditors report to, as an indicator to realize how strong their work is.

In addition, another factor that measures the Objectivity & Independence of the Internal Audit (IA) department is the appointment and removal of its chief executive. In order to ensure objectivity, “only the BoD and Audit Committee (AC) can appoint and remove the Internal Audit Executive (IAE)”. (Canadian Institute of Chartered Accountants, 1997)

Independence and Objectivity from another viewpoint needs to be on an individual level as well. “Internal Auditors must have an impartial, unbiased attitude and avoid any conflict of interest”. (Standards, 1120). A good example is that internal auditors should not be assigned to perform audit activities to departments that have previously been connected to. Concluding, that both Organizational and Individual Objectivity are both equally significant traits for the internal audit profession.

A.2.2 Knowledge & Competence

Internal Auditors in order to perform their job effectively need to have specific knowledge and skills to accomplish their tasks. The IIA identifies that “Internal Auditors must possess the knowledge, skills and other competencies needed to perform their professional

responsibilities”. (Standards, 1210) Although, the knowledge may differ from industry to industry the internal auditors can fulfill this part as encouraged by the IIA with continuous development. In particular, the International Standards for the Professional Practice of Internal Auditing state that “Internal Auditors must enhance their knowledge, skills, and other competencies through continuing professional development”. On a statement provided as explanatory by the Standards it mentions that “Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor (CIA) designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations”. (Standards, 1210) The Basel Committee on Banking Supervision, according to a survey that was conducted in 2002, clarified that other ways to maintain professional competence are the below:

- “on-the-job training”
- “formal internal and external training”
- “staff rotation within the audit department” and
- “encouragement to become a Certified Internal Auditor”

A.2.3 Work Performance & Monitoring and Controls

The International Standards for the Professional Practice of Internal Auditing (2017) categorize the Performance Standards into the following subsystems: managing the internal audit activity, followed by the nature of work, performing the engagement, communicating the results and finally, monitoring progress. Each standard analyzed and subcategorized. In the specific section, work performance and monitoring and controls will be discussed in general and only focus on specific key factors.

According to the Standards, the internal auditor’s activity “must include the evaluation and contribution to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach”. (Standards, 2100) One of the first steps before an audit begins, is the appropriate planning. “Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing and resource allocation.” (Standards, 2200) The next step includes performing the engagement. “Internal Auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives.” (Standards, 2300) During the performance of the engagement tasks other than the ones named above is the proper supervision; “Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.” (Standards, 2340) Finally, communicating the results is one of the last steps and concluding with, monitoring progress, where “the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management” (Standards, 2500), meaning that the “CAE establishing a

follow-up process to monitor and ensure that management actions have been effectively implemented or that they have accepted the relevant risk”. (Standards, 2500.A1)

A.3 Internal Audit in Greece

The Hellenic Institute of Internal Auditors (HIIA) was founded in Athens in 1985, being the first stepping stone for Internal Audit in Greece. After that, specific moments that characterize the history of Internal Audit in Greece are the following:

In 1999, the Law 273/1999 established the operation of internal audit function in the public sector. “The enactment of the internal audit framework was to eliminate the phenomena of corruption and misrule in public administration” (Kontogeorgis & Filos, 2012).

A major milestone was in 2002 upon the Law 3016/2002 where all listed companies in the Athens Stock Exchange are required to have an internal audit department. The internal auditors should be appointed by the board, in order to establish the objectivity and independence of the department. The specific requirements are in force up till today. Furthermore, it should be mentioned that with other provisions of the Law 3016/2002, “the internal auditor should have access to documents and other important information in order to fulfill his duties” (Kontogeorgis & Filos, 2012).

According to the Law 3693/2008, all companies listed in the Athens Stock Exchange are required to have an Audit Committee. “Among the duties of the Audit Committee are the supervision of the process of publication of financial statements, the operation of internal the audit department of a company and the relevant internal controls.” (Kontogeorgis & Filos, 2012).

Finally, the strengthening of the function of the audit committee was formed with the Law 3873/2010, which states that “the companies listed in Athens Stock Exchange are required to disclose the composition of their audit committee and details of its operation.” (Kontogeorgis & Filos, 2012).

The latest stepping-stone for Internal Audit in Greece, was in 2020 with the Law 4706/2020 on “Corporate Governance of Societe Anonymes, contemporary capital markets, integration in the Greek legislation of the Directive (EU) 2017/828 of the European Parliament and the Council, measures the implementation of the Regulation (EU) 2017/1131 and other provisions.” (Government Gazette No. A’ 136/17.07.2020) The specific law aiming to update the current legislative framework, since it modifies specific articles of the Law 3016/2002. Important alteration, inter alia, was the Board of Directors’ responsibilities which included the monitoring and periodical assessment of the corporate governance system of the company.

B.1 Research Methodology

B.1.1 Research Strategy

The goal of the specific research is to test whether the strength of the Internal Audit can affect the financial performance of a company. We expect to find a positive correlation between Internal Audit and Financial Performance, meaning that when the one increases the other one does as well. As we mentioned in the theoretical part, factors affecting Internal Audit are:

- a. the Objectivity and Independence of the Internal Auditors,
- b. the Knowledge and Competence of the Internal Auditors and
- c. the Work Performance and the Monitoring & Controls that are involved.

It follows that our main hypothesis is that factors affecting Internal Audit can also affect the Financial Performance of the company.

Research Hypothesis

H₀₁: There is a positive relationship between the Objectivity & Independence of the Internal Auditors and the Financial Performance of a company.

H₀₂: There is a positive relationship between the Knowledge & Competence of the Internal Auditors and the Financial Performance of a company.

H₀₃: There is a positive relationship between the Work Performance & the Monitoring & Controls and the Financial Performance of a company.

B.1.2 Previous Research

To the best of my knowledge, the specific research has not formally been processed in Greek organizations. Although, there has been some past research in other countries, like Al-Ghalayini (2013) on how the internal audit department performs its role in order to monitor the financial and managerial performance. Obeid Ahmed Obeid's research on evaluating the strength of Internal Audit in Sudanese Banks was the inspiration behind the product of certain questions in the questionnaire for our research. Finally, worth mentioning the study of Wanyama, Odoyo & Bongonko (2018) on the Effect of the Internal Audit Function on the Financial Performance in a specific company in Kenya. In Greece, worth mentioning is the research of Drogalas, Karagiorgos and Arampatzis (2015) on factors associated with the effectiveness of the internal audit, factors that are also used in our study.

Numerous articles have been written on Internal Audit effectiveness, in both Greece and abroad. In this study, we associate the Internal Audit effectiveness with the Financial Performance and conclude that Internal Audit is as an important factor as others that can monitor and act as a proactive solution in order to achieve and retain Financial Performance.

B.1.3 Research Approach

The approach that was used for the specific research was the views of the internal auditors regarding the factors affecting the strength of the Internal Audit. The data were collected primarily by questionnaires sent to Internal Auditors of specific listed companies in Greece and secondary by financial reports of the specific companies.

The survey included only closed ended questions and it was sent via personal email or through a social business application.

The research was conducted during the months of May 2022 until September 2022. The questionnaire was sent to 100 internal auditors, the response rate was 56% with 51 valid answers.

B.1.4 Questionnaire

The questionnaire was divided into three sections. In the beginning, there were some demographic questions related to the sample. Followed by 6 questions regarding the first factor that affects the strength of the Internal Audit, that being, the Objectivity and Independence of the Internal Auditors. The second factor, the Knowledge and Competence of the Internal Auditors included 6 questions and finally 19 questions regarding the Work Performance and Monitoring & Controls. In total, the questionnaire was formed by 31 questions for the three factors/variables all measured by the Likert-type scale. The scale was a five-point rank, from (1) Strongly Agree to (5) Strongly Disagree.

B.1.5 Variables

The independent variables are the three factors that affect the Strength of the Internal Audit, each of which is established by a series of questions. The first independent variable, the Objectivity & Independence is sequenced by the questions in the following table;

I believe that the staff of the internal audit department in the company are independent members and produce their work objectively
The internal audit department has access to all departments and all employees of the company for the conduct of the audit
I believe that the members of the internal audit department are influenced by the management of the company
I believe that the management of the company intervenes in the process of the internal audit
The Audit Committee (Board of Directors if there is no Audit Committee) of the company consists of independent non-executive members in the majority.
The head of the internal audit department is appointed by the company's board of directors.

B.1.5.1 Statements for the variable Objectivity & Independence

The second independent variable is the Knowledge and Competence of the Internal Auditors. In the questionnaire this variable is established by the following questions.

I believe that the members of the company's internal audit department have the knowledge and skills to conduct the audit.
As an internal auditor I am interested in my continuous educational development in the industry
The majority of the members of the company's internal audit department have experience in external or internal auditing
The company will have the members of the internal audit department in mandatory training inside or outside the company
In the internal audit department there are members with the certification of the internal auditor
As an internal auditor I strive to keep my knowledge and skills up to date

B.1.5.2 Statements for the variable Knowledge & Competence

Finally, the third independent variable is the Work Performance and the Monitoring & Controls of the Internal Audit department of a company, established by the questions on the following table.

The internal auditors report to the Board of Directors/Audit Committee in writing at least once a quarter about their audit.
I consider that the number of members of the company's internal audit department is satisfactory for the scope of the audit
The internal audit department conducts numerous audits in the company without previous notice
The adequacy and appropriateness of the company's risk management is frequently reviewed by the internal audit department
Company's assets are recorded and agreed on a consistent basis
The company's employees follow the standarts set by the internal auditors
The internal control department ranks and manages the company's risks on a priority basis
Company's employees cooperate with the internal auditors during the conduct of the audit
The company's internal audit department reports to the Audit Committee/Board of Directors any cases of conflict of interest between employees or members of the Board of Directors and the company's interests.
I believe that the company policy has been communicated to the employees
When audit findings arise from the conduct of the internal audit, corresponding corrective measures are taken
The work of the members of the internal audit department is reviewed by senior management of the department
The company implements the measures reported by the internal auditors
The internal auditors review the safety implementations that have suggested
I believe that the internal audit improves the company's processes and remains relevant for the today's risks.
The planning of the internal audit is annual
I believe that the Management is satisfied with the services of the company's internal audit department.
Computers are largely used to carry out the audit
I believe that internal auditors examine the authenticity and reliability of the data they receive

B.1.5.3 Statements for the variable Work Performance and Monitoring & Controls

The dependent variable, on the other hand, is the Financial Performance of the companies of the respondent internal auditors. The Financial Performance was established by the financial reports of the companies on 31.12.2021, and were categorized on a three-point scale from (1) Strong Financial Performance to (3) Low Financial Performance, according to three pillars, profitability, liquidity and operating efficiency. The companies are composed by three financial institutions, two construction companies, two production companies and a commercial one. For the categorization of the companies' financial performance, information was drawn from their financial statement and specific indices were used and contrasted with those of other Greek companies of the same field and classified on a Strong to Low Financial Performance scale. On the Appendix N. 3 you can find the results of the indices of the specific companies.

B.2 Empirical Results

In this chapter, we demonstrate and analyze the results of our empirical research. It is separated into two parts. In the first one, we present the results of the demographic data followed by the results of the three independent variables. Then we will examine the reliability of the data using the Cronbach's Alpha reliability coefficient and the correlation, if any, for each independent variable with the dependent one, in order to conclude our hypotheses. All the data were imported and analyzed by using the SPSS computer program.

B.2.1 Descriptive Statistics

B.2.1.1 Demographic/General Information

The demographic characteristics that were collected regarded gender, age, educational level, years of experience in the internal audit, type of company, the existence of an Audit Committee in the company, hierarchy of the internal audit department and lastly the use of specific audit files. All this information is displayed on the following Tables B.2.1.1.1 - B.2.1.1.8.

Gender		
	N	%
Male	30	59%
Female	21	41%

B.2.1.1.1 Demographic Characteristics

Age		
	N	%
20 - 29	16	31%
30 - 39	15	29%
40 - 49	15	29%
50 >	5	10%

B.2.1.1.2 Demographic Characteristics

Education Level		
	N	%
Bachelor Degree	18	35%
Master Degree	23	45%
CIA certificate	10	20%

B.2.1.1.3 Demographic Characteristics

Years of Experience in Internal Audit		
	N	%
0 - 5	21	41%
6 - 10	12	24%
11 - 20	14	27%
21 >	4	8%

B.2.1.1.4 Demographic Characteristics

Types of Company you worked as an IA		
	N	%
Banking	24	39%
Construction	11	22%
Commercial	8	16%
Production	9	24%

B.2.1.1.5 Demographic Characteristics

Is there an Audit Committee in your company?		
	N	%
YES	51	100%

B.2.1.1.6 Audit Committee function

Hierarchy of AD, is under		
	N	%
CEO	2	4%
CFO	3	6%
Audit Committee	38	75%
Board of Directors	7	14%
None of the above	1	2%

B.2.1.1.8 Hierarchy of Internal Audit department

Specific Audit Files		
	N	%
YES	40	78%
NO	11	22%

B.2.1.1.7 Specific Audit Files

From the above tables, we notice that almost 60% of the sample is male and only 40% is women. Almost half of them have a postgraduate degree and only ten of them are certified internal auditors.

B.2.1.2 Objectivity & Independence

Regarding the first independent variable, that of Objectivity & Independence, we obtain the statements in the Table B.2.1.2.1 regarding the frequency and the percentage for every scaled answer.

Looking at the first statement, that of the objective work of the internal auditors, the majority of the population of the sample is positive, summing up to 94,1%. The same goes for the access that the internal auditors have inside the company with 86,3% of the answers being positive.

Statements	Strognly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	N	%	N	%	N	%	N	%	N	%
Independent Internal Auditors that conduct their work objectively	31	60,8%	17	33,3%	2	3,9%	1	2,0%	0	0,0%
Access in all departments of the company	31	60,8%	13	25,5%	5	9,8%	2	3,9%	0	0,0%
Internal Auditors influenced by top management	0	0,0%	5	9,8%	13	25,5%	26	51,0%	7	13,7%
Top management intervenes in the process of the internal audit	0	0,0%	1	2,0%	15	29,4%	23	45,1%	12	23,5%
The Audit Committee members are independent non-executive in the majority.	18	35,3%	28	54,9%	5	9,8%	0	0,0%	0	0,0%
The head of the internal audit department is appointed by the company's board of directors.	22	43,1%	19	37,3%	10	19,6%	0	0,0%	0	0,0%

B.2.1.2.1 Frequency distribution regarding Objectivity & Independence variable

According to the next statement, 64,7% of internal auditors are not influenced by the top management, nevertheless 25,5% indicated a neutral answer. Continuing with the statement of whether top management intervenes in the process of the audit, similar findings indicate 29,4% of the internal auditors to be neutral and 68,6% to disagree and strongly disagree.

For the statement whether the members of the Audit Committee are in majority independent, non-executive members, the 90,2% agree and strongly agree, with only a 9,8% being undecided. Finally, for the last statement, whether the head of the internal audit department is appointed by the company's Board of Directors the 80,4% of the answers are positive with a 19,6% being neutral.

B.2.1.3 Knowledge & Competence

For the statements regarding the variable of Knowledge and Competence, Table B.2.1.3.1 presents the relevant frequencies and percentages of the respondents. In particular, for the statements about the knowledge and skills of the internal auditors, the continuous development, whether they have previous experience in auditing and lastly for the mandatory training, most of the respondents had positive answers. Continuing with the statement if there is a certified auditor in the department the 86,3% either agreed or strongly agreed. Similarly, 96,1% are positive when asked if they strive to keep their knowledge up to date.

Statements	Strognly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	N	%	N	%	N	%	N	%	N	%
The Internal Auditors have the relevant knowledge and skills	29	56,9%	22	43,1%	0	0,0%	0	0,0%	0	0,0%
Continuous educational development of internal auditors	42	82,4%	7	13,7%	2	3,9%	0	0,0%	0	0,0%
The interal auditors have previous experience in auditing	28	54,9%	20	39,2%	3	5,9%	0	0,0%	0	0,0%
Mandatory training of the internal auditors	22	43,1%	23	45,1%	5	9,8%	1	2,0%	0	0,0%
CIA members in the internal audit department	26	51,0%	18	35,3%	4	7,8%	3	5,9%	0	0,0%
As an internal auditor I strive to keep my knowledge and skills up to date	31	60,8%	18	35,3%	2	3,9%	0	0,0%	0	0,0%

B.2.1.3.1 Frequency distribution regarding Knowledge & Competence variable

B.2.1.4 Work Performance & Monitoring and Controls

Statements	Strognly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	N	%	N	%	N	%	N	%	N	%
The internal auditors report to the Board of Directors/Audit Committee in writing at least once a quarter about their audit.	31	60,8%	12	23,5%	6	11,8%	2	3,9%	0	0,0%
I consider that the number of members of the company's internal audit department is satisfactory for the scope of the audit	7	13,7%	21	41,2%	11	21,6%	10	19,6%	2	3,9%
The internal audit department conducts numerous audits in the company without previous notice	8	15,7%	27	52,9%	12	23,5%	4	7,8%	0	0,0%
The adequacy and appropriateness of the company's risk management is frequently reviewed by the internal audit department	15	29,4%	27	52,9%	7	13,7%	2	3,9%	0	0,0%
Company's assets are recorded and agreed on a consistent basis	28	54,9%	16	31,4%	7	13,7%	0	0,0%	0	0,0%
The company's employees follow the standarts set by the internal auditors	24	47,1%	25	49,0%	2	3,9%	0	0,0%	0	0,0%
The internal control department ranks and manages the company's risks according to priority	29	56,9%	14	27,5%	6	11,8%	2	3,9%	0	0,0%
Company's employees cooperate with the internal auditors during the conduct of the audit	26	51,0%	19	37,3%	6	11,8%	0	0,0%	0	0,0%
The company's internal audit department reports to the Audit Committee/Board of Directors any cases of conflict of interest between employees or members of the Board of Directors and the company's interests.	31	60,8%	15	29,4%	3	5,9%	2	3,9%	0	0,0%
I believe that the company policy has been communicated to the employees	33	64,7%	14	27,5%	4	7,8%	0	0,0%	0	0,0%
When audit findings arise from the conduct of the internal audit, corresponding corrective measures are taken	33	64,7%	14	27,5%	4	7,8%	0	0,0%	0	0,0%
The work of the members of the internal audit department is reviewed by senior management of the department	24	47,1%	21	41,2%	6	11,8%	0	0,0%	0	0,0%
The company implements the measures reported by the internal auditors	23	45,1%	20	39,2%	7	13,7%	1	2,0%	0	0,0%
The internal auditors review the safety implementations that have suggested	26	51,0%	16	31,4%	7	13,7%	2	3,9%	0	0,0%
I believe that the internal audit improves the company's processes and remains relevant for the today's risks.	31	60,8%	15	29,4%	5	9,8%	0	0,0%	0	0,0%
The planning of the internal audit is annual	28	54,9%	16	31,4%	6	11,8%	1	2,0%	0	0,0%
I believe that the Management is satisfied with the services of the company's internal audit department.	19	37,3%	25	49,0%	7	13,7%	0	0,0%	0	0,0%
Computers are largely used to carry out the audit	38	74,5%	10	19,6%	3	5,9%	0	0,0%	0	0,0%
I believe that internal auditors examine the authenticity and reliability of the data they receive	33	64,7%	15	29,4%	3	5,9%	0	0,0%	0	0,0%

B.2.1.4.1 Frequency distribution regarding Work Performance & Monitoring and Controls variable

Table B.2.1.4.1, summarizes the results regarding the statements of the variable Work Performance & Monitoring and Controls.

For the first statement, regarding the reporting to the Audit Committee every quarter, we obtain 84,3% of positive answers and 11,8% of neutral. Only half of the sample agrees on the sufficient number of the internal auditors in a department. It is worth mentioning that there is a, 13,7% of undecided answers for the statements (a) the company implements the measures reported by the internal auditors and (b) the internal auditors review the safety implementations that have been suggested.

Finally, the statement of the annual planning of the internal audit obtains 11,8% of neutral answers. The rest of the statements are in majority positive.

B.2.2 Correlation Analysis

B.2.2.1 Cronbach's Alpha coefficient

The Cronbach's Alpha is a coefficient that measures the internal consistency between items in a scale, meaning that we are looking at how participants are responding across all items. This is the reason there should not be a mix of positively and negatively worded questions. According to J. Pallant's book, the data imported to SPSS need to be of the same positive or negative direction in order for the Cronbach's Alpha coefficient to be positive. The specific code variables should be reversed if needed.

In our research, the necessary questions were reversed in the SPSS computer program in order for the data to be of the same positive wording. The Cronbach's Alpha reliability coefficient was computed for the statements of the three independent variables and are presented on the Table B.2.2.1.1.

Reliability Statistics		
Variables	Cronbach's Alpha	N of Items
Objectivity & Independence	0,787	6
Knowledge & Competence	0,689	6
Work Performance, Monitoring & Controls.	0,923	19

B.2.2.1.1 Cronbach's Alpha reliability

For the coefficient to be reliable the Cronbach's Alpha should be equal or greater than 0,7. Nevertheless, J. Pallant in the book "SPSS survival manual" notes that when we have less than 10 items on a scale, it is difficult to have a high Alpha and, in such cases, we should be looking for an Alpha equal or greater than 0,5.

Therefore, according to these thresholds and the information in the Table B.2.2.1.1, we find that the Cronbach's Alpha coefficient for all the three independent variables shows no cause for concern regarding the reliability status. More details regarding the Cronbach's Alpha of the independent variables are presented in Appendix 2.

B.2.2.2 Spearman's rho correlation

Spearman's rho correlation is a coefficient that measures the strength and direction of a relationship between two variables. According to J. Pallant, Spearman's rho correlation is preferred to Pearson's for Likert scale questions as in our case.

Table B.2.2.2.1 presents the correlation between the variables Objectivity & Independence and the Financial Performance. The correlation coefficient is computed for each statement.

Correlations							
		Independent Internal Auditors	Access in all departments	Influenced by management	Management interferes	Independent AC	BoDappoints IAO
Spearman's rho Financial Performance	Correlation Coefficient	.519**	.417**	0,141	0,262	.357*	-0,394**
	Sig. (2-tailed)	0,000	0,002	0,321	0,063	0,010	0,004
	N	51	51	51	51	51	51

** . Correlation is significant at the 0.01 level (2-tailed).

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

B.2.2.2.1 Correlation between Financial Performance and Objectivity & Independence variable

For each correlation it has been provided a p value that shows whether the correlation that we observe for the specific statement in our sample is statistically significant in comparison to the level of significance that has been provided. So, for the first statement of the variable Objectivity & Independence, whether the internal auditors are independent and conduct their work objectively, we find a correlation of 0,519 for a p value less than 0,01 which has been given for this statement, meaning that the positive correlation between this statement and Financial Performance is statistically significant.

In this manner, we find a positive correlation for most of the statements of the variable, only the one that mentions whether the head of the Internal Audit department is appointed by the Board of Directors where the correlation is negative meaning that the specific statement does not move on the same direction as the Financial Performance of the company. That could result on Financial Performance not being affected by the specific statement. A probable justification for the negative correlation is that the appointment of the head of the internal audit department is being assigned by the Boards of Directors but the Audit Committee of the company is involved with the decision, since they are the ones that make the relevant suggestions of Chief Internal Auditors to the BoD. This could be the cause for a negative but statistically significant coefficient.

For the statements “I believe that the members of the internal audit department are influenced by the management of the company” and “I believe that the management of the company intervenes in the process of the internal audit” the correlations are not statistically significant, which means that the sample for the specific statements is not representative in order to conclude that the correlation that appears in our sample can also appear in the population. Thus, we can conclude that the Objectivity & Independence has a positive correlation with the Financial Performance of the company only for specific statements, and for some the correlation is stronger than others.

Correlations								
		Knowledge & Skills	Cont. educational progress	Previous experience in audit	Obligatory Education	CIA certified	Up to date Skills	
Spearman's rho	Financial Performance	Correlation Coefficient	.908**	.346*	0,21	0,21	0,21	0,507**
		Sig. (2-tailed)	0,000	0,013	0,000	0,145	0,140	0,000
		N	51	51	51	51	51	51

** . Correlation is significant at the 0.01 level (2-tailed).

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

B.2.2.2.2 Correlation between Financial Performance and Knowledge & Competence variable

Table B.2.2.2.2, presents the correlation between the variable Knowledge & Competence and the Financial Performance. We notice a positive correlation for the statements of this independent variable, but only for the statements of whether the internal auditors have the appropriate knowledge and skills, if they are interested in their continuous educational development and if they strive to keep their knowledge up to date the correlation coefficient is statistically significant. For the rest of the statements the correlation is very small and not statistically significant.

For our last independent variable, Table B.2.2.2.3 presents the correlation coefficients, regarding the statements for Work Performance & Monitoring and Controls.

Correlations									
		Reporting	Number of internal auditors	Unexpected Audits	Risk Management	Assets	Compling to standarts	Risk Priority	
Spearman's rho	Financial Performance	Correlation Coefficient	.435**	-0,008	0,214	0,253	.325*	.568**	.533**
		Sig. (2-tailed)	0,001	0,956	0,131	0,073	0,020	0,000	0,000
		N	51	51	51	51	51	51	51

Correlations									
		Cooperation	Conflict of Interest	Company Policy	Audit Findings	Work of Auditors	Measures	Audit Security Valves	
Spearman's rho	Financial Performance	Correlation Coefficient	.449**	0,184	.537**	.512**	.407**	.525**	.489**
		Sig. (2-tailed)	0,001	0,196	0,000	0,000	0,003	0,000	0,000
		N	51	51	51	51	51	51	51

Correlations						
		Up to date risk management	Planning	Client Satisfaction	PC	Authenticity
Spearman's rho Financial Performance	Correlation Coefficient	.386**	.483**	.534**	.415**	.581**
	Sig. (2-tailed)	0,005	0,000	0,000	0,002	0,000
	N	51	51	51	51	51

** . Correlation is significant at the 0.01 level (2-tailed).

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

B.2.2.2.3 Correlation between Financial Performance, Work Performance and Monitoring & Controls

We find the correlations between Financial Performance and the statements for Work Performance & Monitoring and Controls to be in their majority positive and statistically significant. On the contrary, for the statement of the number of the internal auditors being sufficient for the scope of the audit, we obtain a negative correlation, and for the statements regarding a. the conflict of interest to be reported, b. unexpected audits and finally c. for the frequent review of the risk management that is applied by the internal auditors, the correlation is not statistically significant, for all the above statements that do not conform, it indicates that the sample in our study is not representative of the entire population for the specific statements.

C. Conclusion

This thesis investigates how the strength of the Internal Audit can affect the performance of a company. The research was done in Greek listed companies by examining the views of their internal auditors. To achieve this objective, we used four variables, Objectivity & Independence, Knowledge & Competence, Work Performance & Monitoring and Controls and Financial Performance in order to measure the strength among these variables.

The findings of this research showed that there is a positive correlation between the three independent variables and the dependent one, thus being the Financial Performance, with a significant correlation to most of the statements. For the statements that indicated a not statistically significant correlation, we conclude that our sample of the study was not representative for the entire population.

C.1 Limitations & Recommendation for Further Research

We need to state here that the current study has some limitations, concerning specifically two main factors. Firstly, the research was conducted to a specific number of internal auditors, so the sample was one restriction that we faced. The larger the size of the sample the more representative the findings are for the population. Plus, it was conducted on the views of internal auditors so some factors may be subjective. The second factor that needs to be acknowledged

is that the Financial Performance is a variable that is not affected only by the Strength of the Internal Audit department, but also by other factors like inflation, governmental behavior, the allocation of the funds on each department of the company are also factors that contribute to the financial strength of a company, which in our case we took constant for our research.

Internal Audit gradually gains a bigger role in the world of business. Interesting further research could be a case study on both the sides, the internal auditors and the audit committee, in order to find reasons for improvement. Another research could be an investigation on how Internal Audit affected a company in a period of time, so that the results on its Financial Performance could be more objective.

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Appendix 1

The questionnaire was sent to internal auditors of Greek organizations. For this reason, it was conducted in the Greek language, please find below the survey “How the strength of the Internal Audit can affect the performance of the company”

Φύλο

- Άνδρας
- Γυναίκα

Ηλικία

- 20 – 29
- 30 – 39
- 40 – 49
- 50 >

Επιλέξτε το εκπαιδευτικό επίπεδο το οποίο έχετε αποκτήσει. Δυνατότητα επιλογής πάνω πάνω από μία απάντηση

- Απόφοιτος Λυκείου
- Απόφοιτος ΑΕΙ / ΤΕΙ
- Κάτοχος Μεταπτυχιακού Διπλώματος
- Κάτοχος Πιστοποίησης Εσωτερικού Ελέγχου

Εργασιακή Εμπειρία πάνω στον Εσωτερικού Έλεγχου

- 0 – 5 έτη
- 6 – 10 έτη
- 11 – 20 έτη
- 21 > έτη

Κλάδος εταιρειών στους οποίους έχετε συμμετέχει ως εσωτερικός ελεγκτής. Δυνατότητα επιλογής πάνω από μία απάντηση

- Χρηματοοικονομικός
- Κατασκευαστικός
- Εμπορικός
- Παραγωγής

Υπάρχει Επιτροπή Ελέγχου στην εταιρεία σας

- ΝΑΙ
- ΟΧΙ

Το τμήμα Εσωτερικού Ελέγχου της εταιρείας σας υπάγεται ιεραρχικά κάτω από:

- Τον Πρόεδρο της εταιρείας
- Τον Οικονομικό Διευθυντή
- Την Επιτροπή Ελέγχου
- Το Διοικητικό Συμβούλιο
- Κανένα από τα παραπάνω

Κατά την διεξαγωγή του ελέγχου το τμήμα χρησιμοποιεί συγκεκριμένα πρότυπα έγγραφα και ελεγκτικά φύλλα εργασίας.

- ΝΑΙ
- ΟΧΙ

	Συμφωνώ απολύτως	Συμφ ωνώ	Ουδέτ ερος/η	Διαφω νώ	Διαφωνώ Απολύτω ς
Θεωρώ ότι το προσωπικό του τμήματος του εσωτερικού ελέγχου στην εταιρεία είναι ανεξάρτητα μέλη και παράγουν το έργο τους αντικειμενικά					
Το τμήμα εσωτερικού ελέγχου έχει πρόσβαση σε όλα τα τμήματα και σε όλους τους εργαζομένους της εταιρείας για την διεξαγωγή του ελέγχου					
Υπάρχει μέλος της ομάδας του εσωτερικού ελέγχου το οποίο διεξάγει έλεγχο σε τμήμα της εταιρείας στο οποίο στο παρελθόν εργαζόταν όχι στα πλαίσια εσωτερικού ή εξωτερικού ελέγχου					
Θεωρώ ότι τα μέλη του τμήματος του εσωτερικού ελέγχου επηρεάζονται από την διοίκηση της εταιρείας					
Θεωρώ πως η διοίκηση της εταιρείας παρεμβαίνει στην διεξαγωγή του εσωτερικού ελέγχου					
Τα μέλη τους τμήματος του εσωτερικού ελέγχου της εταιρείας δίνουν αναφορά στον διευθύνων Σύμβουλο (C.E.O.) της εταιρείας για τα ευρήματα του εσωτερικού ελέγχου					
Η Επιτροπή Ελέγχου (Διοικητικό Συμβούλιο εφόσον δεν υπάρχει Επιτροπή Ελέγχου) της εταιρείας αποτελείται στην πλειοψηφία από ανεξάρτητα μη εκτελεστικά μέλη.					
Ο υπεύθυνος του τμήματος του εσωτερικού ελέγχου ορίζεται από την διοίκηση της εταιρείας					

	Συμφωνώ απολύτως	Συμφωνώ	Ουδέτερος/η	Διαφωνώ	Διαφωνώ Απολύτως
Πιστεύω πως τα μέλη του τμήματος του εσωτερικού ελέγχου της εταιρείας κατέχουν τις γνώσεις και ικανότητες για την διεξαγωγή του ελέγχου.					
Ως εσωτερικός ελεγκτής ενδιαφέρομαι για την συνεχή εκπαιδευτική μου εξέλιξη μου στον κλάδο					
Η πλειοψηφία των μελών του τμήματος του εσωτερικού ελέγχου της εταιρείας έχουν εμπειρία σε εξωτερικό ή εσωτερικό έλεγχο					
Η εταιρεία εντάσσει τα μέλη του τμήματος του εσωτερικού ελέγχου σε υποχρεωτική εκπαίδευση εντός ή εκτός της εταιρείας					
Στο τμήμα εσωτερικού ελέγχου υπάρχουν μέλη με την πιστοποίηση του εσωτερικού ελεγκτή					
Ως εσωτερικός ελεγκτής προσπαθώ οι γνώσεις και οι ικανότητες μου στον κλάδο να παραμένουν ενημερωμένες/εκσυγχρονισμένες					
Τα μέλη του τμήματος του εσωτερικού ελέγχου ορίζονται είτε από την Επιτροπή Ελέγχου της εταιρείας είτε από το διοικητικό συμβούλιο.					
Δεν υπάρχει μέλος του τμήματος του εσωτερικού ελέγχου της εταιρείας, το οποίο στο παρελθόν εργαζόταν σε τμήμα της εταιρείας στο οποίο σήμερα διεξάγει έλεγχο.					

	Συμφωνώ απολύτως	Συμφωνώ	Ουδέτερος/η	Διαφωνώ	Διαφωνώ Απολύτως
Οι εσωτερικοί ελεγκτές ενημερώνουν εγγράφως το Διοικητικό Συμβούλιο/ Επιτροπή Ελέγχου τουλάχιστον μία φορά το τρίμηνο για τον διενεργούμενο έλεγχο τους.					
Θεωρώ πως ο αριθμός των μελών του τμήματος του εσωτερικού ελέγχου της εταιρείας είναι ικανοποιητικός για το εύρος του ελέγχου					

	Συμφωνώ απολύτως	Συμφωνώ	Ουδέτερος/η	Διαφωνώ	Διαφωνώ Απολύτως
Διενεργούνται έκτακτοι έλεγχοι σε αρκετά μεγάλο βαθμό στην εταιρεία από την πλευρά του εσωτερικού ελέγχου.					
Η επάρκεια και η καταλληλότητα της διαχείρισης κινδύνου της εταιρείας επανεξετάζεται σε συχνό βαθμό από το τμήμα του εσωτερικού ελέγχου					
Τα κονδύλια της εταιρείας καταγράφονται και συμφωνούνται σε σταθερή βάση					
Οι υπάλληλοι της εταιρείας ακολουθούν τα μέτρα που ορίζονται από τους εσωτερικούς ελεγκτές					
Το τμήμα εσωτερικού ελέγχου κατατάσσει και διαχειρίζεται τους κινδύνους της εταιρείας με σειρά προτεραιότητας					
Οι υπάλληλοι της εταιρείας συνεργάζονται και διευκολύνουν τον έλεγχο των εσωτερικών ελεγκτών					
Το τμήμα εσωτερικού ελέγχου της εταιρείας αναφέρει στην Επιτροπή Ελέγχου/ Διοικητικό Συμβούλιο τυχόν περιπτώσεις σύγκρουσης συμφερόντων μεταξύ των υπαλλήλων ή των μελών του διοικητικού συμβουλίου και των συμφερόντων της εταιρείας					
Θεωρώ πως οι αρμοδιότητες και η πολιτική της εταιρείας έχουν γνωστοποιηθεί στους υπαλλήλους					
Όταν προκύπτουν ελεγκτικά ευρήματα από την διεξαγωγή του εσωτερικού ελέγχου, λαμβάνονται αντίστοιχα διορθωτικά μέτρα					
Η δουλειά των μελών του τμήματος εσωτερικού ελέγχου εξετάζεται από ανώτερα στελέχη του τμήματος					
Η εταιρεία εφαρμόζει τα μέτρα που αναφέρονται από τους εσωτερικούς ελεγκτές					
Έπειτα από την εφαρμογή των δικλείδων ασφαλείας, οι εσωτερικοί ελεγκτές επανεξετάζουν την εφαρμογή τους από τους υπαλλήλους της εταιρείας					
Θεωρώ πως η διεξαγωγή του εσωτερικού ελέγχου βελτιώνει τις διαδικασίες της εταιρείας και παραμένει σχετικός για τους κινδύνους που συντρέχουν για την εταιρεία σήμερα.					

	Συμφωνώ απολύτως	Συμφωνώ	Ουδέτερος/η	Διαφωνώ	Διαφωνώ Απολύτως
Υπάρχει σε ετήσια βάση σχεδιασμός του ελέγχου που θα εκπληρωθεί από το τμήμα					
Θεωρώ πως η Διοίκηση είναι ικανοποιημένη με την παροχή υπηρεσιών από το τμήμα του εσωτερικού ελέγχου της εταιρείας.					
Πραγματοποιείται σε μεγάλο βαθμό η χρήση Η/Υ για την διεξαγωγή του ελέγχου					
Θεωρώ πως οι εσωτερικοί ελεγκτές εξετάζουν την αυθεντικότητα και αξιοπιστία των δεδομένων που λαμβάνουν					

Appendix 2

Cronbach's Alpha study for the variable of Objectivity & Independence

Reliability Statistics	
Cronbach's Alpha	N of Items
0,787	6

Item-Total Statistics				
Statements	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
I believe that the staff of the internal audit department in the company are independent members and produce their work objectively	14,06	5,82	0,54	0,493
The internal audit department has access to all departments and all employees of the company for conduct the audit	13,96	5,28	0,54	0,474
I believe that the members of the internal audit department are influenced by the management of the company	13,22	5,53	0,45	0,510
I believe that the management of the company intervenes in the process of the internal audit	13,43	5,45	0,54	0,480
The Audit Committee (Board of Directors if there is no Audit Committee) of the company consists of independent non-executive members in the majority.	13,78	6,41	0,38	0,547
The head of the internal audit department is appointed by the company's board of directors.	13,43	5,89	0,51	0,501

Cronbach's Alpha study for the variable of Knowledge & Competence

Reliability Statistics	
Cronbach's Alpha	N of Items
0,689	6

Item-Total Statistics				
Statements	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
I believe that the members of the company's internal audit department have the knowledge and skills to conduct the audit.	7,55	4,61	0,45	0,646
As an internal auditor I am interested in my continuous educational development in the industry	7,76	4,42	0,54	0,621
The majority of the members of the company's internal audit department have experience in external or internal auditing	7,47	4,65	0,30	0,685
The company will have the members of the internal audit department in mandatory training inside or outside the company	7,27	4,12	0,39	0,660
In the internal audit department there are members with the certification of the internal auditor	7,29	3,69	0,42	0,661
As an internal auditor I strive to keep my knowledge and skills up to date	7,55	4,25	0,52	0,618

Cronbach's Alpha study for the variable of Work Performance and Monitoring & Controls

Reliability Statistics	
Cronbach's Alpha	N of Items
0,923	19

Item-Total Statistics				
Statements	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
The internal auditors report to the Board of Directors/Audit Committee in writing at least once a quarter about their audit.	31,06	80,62	0,56	0,920
I consider that the number of members of the company's internal audit department is satisfactory for the scope of the audit	30,06	86,74	0,10	0,935
The internal audit department conducts numerous audits in the company without previous notice	30,41	82,09	0,49	0,922
The adequacy and appropriateness of the company's risk management is frequently reviewed by the internal audit department	30,73	80,48	0,64	0,918
Company's assets are recorded and agreed on a consistent basis	31,06	80,06	0,72	0,916
The company's employees follow the standarts set by the internal auditors	31,08	80,95	0,83	0,915
The internal control department ranks and manages the company's risks according to priority	30,98	80,14	0,51	0,922
Company's employees cooperate with the internal auditors during the conduct of the audit	31,04	81,20	0,66	0,918
The company's internal audit department reports to the Audit Committee/Board of Directors any cases of conflict of interest between employees or members of the Board of Directors and the company's interests.	30,39	83,36	0,35	0,925
I believe that the company policy has been communicated to the employees	31,12	79,15	0,73	0,916
When audit findings arise from the conduct of the internal audit, corresponding corrective measures are taken	31,22	81,13	0,73	0,917
The work of the members of the internal audit department is reviewed by senior management of the department	31,00	81,84	0,61	0,919
The company implements the measures reported by the internal auditors	30,92	77,91	0,83	0,914
The internal auditors review the safety implementations that have suggested	30,94	77,90	0,75	0,915
I believe that the internal audit improves the company's processes and remains relevant for the today's risks.	31,16	80,45	0,74	0,916
The planning of the internal audit is annual	31,04	78,56	0,78	0,915
I believe that the Management is satisfied with the services of the company's internal audit department.	30,88	81,07	0,68	0,917
Computers are largely used to carry out the audit	31,33	83,91	0,53	0,921
I believe that internal auditors examine the authenticity and reliability of the data they receive	31,24	82,26	0,66	0,918

Appendix 3

Dependent variable

The Financial Performance of the companies was measured on three pillars, Profitability, Liquidity and Operating Efficiency. Below are specific indices of the companies used for this study. The metric system is defined as Strong, Mediocre and Low, according to the comparison of the same pillars of other companies of the same field.

Banking

	Company A	Company B	Company C
Equity	0,08	0,09	0,07
Total Liabilities			
Revenues	0,18	0,23	0,33
Equity			
Net Income	0,39	-0,07	0,46
Revenues			
Answers	5	9	10
Strength of Financial Performance	Strong	Mediocre	Strong

Construction

	Company D	Company E
Equity	0,13	0,47
Total Liabilities		
Revenues	5,14	1,64
Equity		
Net Income	-7,84	0,07
Revenues		
Answers	5	6
Strength of Financial Performance	Low	Strong

Production

Company F Company G

	Company F	Company G
Equity	1,29	0,24
Total Liabilities		
Revenues	2,66	8,42
Equity		
Net Income	0,04	0,08
Revenues		

Answers
Strength of Financial Performance 6 2
 Strong Strong

Commercial

Company H

	Company H
Equity	0,79
Total Liabilities	
Revenues	3,54
Equity	
Net Income	0,05
Revenues	

Answers
Strength of Financial Performance 8
 Strong