THE UNIVERSITY OF HULL

The Impact of Foreignness on the Compliance with the International

Standards for the Professional Practice of Internal Auditing

Being a Thesis submitted for the Degree of Doctor of Philosophy in

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By

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ABSTRACT

The Institute of Internal Auditors (IIA) was established to organise the profession. The IIA provides members with an International Professional Practices Framework (IPPF) to lead their professional practice and confirm the highest-quality internal audit effects in various environments. One of the IPPF components is the International Standards for the Professional Practice of Internal Auditing (the Standards). The goals of the Standards are to describe essential principles that characterise the practice of internal auditing, to deliver a framework for performing and promoting a wide range of value-added internal auditing, to create the basis for the assessment of internal audit performance, and to foster development of organizational processes and operations. However, some researchers have reported many factors related to the lack of compliance with the Standards, related directly to the fieldwork of the profession, which can be controlled by the board of directors, executives or audit committee either in the short or long term. This study however, is premised on the assumption that solving the internal factors (for instance, internal auditors' educational level (college degree), professional certificates, Certificate of Internal Auditors (CIA), membership of organisation and age of internal audit staff) related directly to the organization or its resources is not the ultimate solution to compliance with the International Standards for the Professional Practice of Internal Auditing Standards. This is because, if a particular organisation tries to adopt a certain strategy to eliminate negative effects associated with internal factors, there are complicated external environmental factors that may not be controllable. For this reason, this study examines foreignness (social capital) as a major factor that affects internal auditors' compliance with the Standards from an environmental perspective, which is one of the main significant contributions of this

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study. The study examines compliance with International Standards for the Professional Practice of Internal Auditing in relation to various cultural factors, such as personal, friendship, and family relationships, which are especially salient in developing, Arab, and Gulf countries. Moreover, another contribution of this study is to examine compliance with the standards from a linguistic prospective. Many countries may recognize and use English as an official language and have no trouble in the basic comprehension of the standards, but meaning may not be completely and accurately conveyed in the nuances of the language, which are unique to different cultural settings. For this reason, the study assumes that language will play a critical role with regard to understanding and consequently complying with the standards. In non-English speaking countries, the IIA has tried to solve this issue by translating the standards into the host country language. Therefore, the study also examines compliance with the International Standards for the Professional Practice of Internal Auditing in terms of two main linguistic factors, *Understanding* and *Translation*. A questionnaire strategy was used to collect quantitative data. The companies listed on the Saudi Stock Exchange Market, selected from different sectors in order to have a diversity of responses from many industries. The results showed that there is an influence of social capital (personal social capital, friendship social capital, and family social capital) on the compliance with the International Standards for the Professional Practice of Internal Auditing (*Independence and Objectivity, Individual Objectivity*, and *Governance*). The findings also showed that there is an effect of *Linguistic Social Capital* (*Understanding*, and *Translation*) on compliance with the International Standards for the Professional Practice of Internal Auditing with regard to professional terms such as *Add Value* and *Residual Risk*.

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CONTENTS

ABBREVIATIONS

AS	Attribute Standard
AS 1100	Independence and Objectivity Standard
AS 1120	Individual Objectivity Standard
AV	Add Value
CAE	Chief Audit Executive
CFO	Chief Financial Officer
CFR	Friend relationship
CIA	Certificate of Internal Auditors
CLF	Loyalty to Family
CMA	Capital Market Authority
CPA	Certificate Public Accountant
CPR	Personal relationship
D	Decision
FMSC	Family Social Capital
FRSC	Friendship Social Capital
GAB	The General Audit Bureau
GOV	Governance
I	Information
IAAs	Internal Audit Activities
IIA	The Institute of Internal Auditors
INDP	Independence
INFO	Information
IPPF	International Professional Practices Framework
J	Judgment
LSC	Linguistic Social Capital
LT	Linguistic, Translation
LU	Linguistic, Understanding

OBJTV	Objectivity
P	Perception
PLS-SEM	Partial Least Squares Structure Equation Modelling
PRSC	Personal Social Capital
PS	Performance Standard
PS 2110	Governance Standard
RR	Residual Risk
RSC	Relational Social Capital
SC	Social Capital
SOCPA	Saudi Organization for Certified Public Accountants
The Standards	International Standards for the Professional Practice of Internal Auditing

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CHAPTER ONE: INTRODUCTION

1.1 Introduction to the Chapter

This chapter introduces the internal audit profession, the associate organisations and standards related to it. It explains the research problem with reference to literature that illustrates the problem background. It further presents the motivation for the study. The next section is the research method. This section explains the approach that the researcher used to conduct the current research practically and achieve the research objectives and questions. The research objectives and questions is next. In this section, all the main questions, and sub-questions are addressed. The contribution section is next, and it shows the difference between this study and previous research, in order to demonstrate how the present work adds to the literature. The section before the last in this chapter contains on outline of the thesis structure, which paves the way for the remaining chapters. The final section of this chapter is the conclusion. Which summarises the essential elements discussed in the chapter.

1.2 Introduction and Motivation for the Study

The Institute of Internal Auditors (IIA) is a global body and accordingly issues a set of uniform standards called International Standards for the Professional Practice of Internal Auditing to be used by internal auditors worldwide. According to the IIA, the main goals of the standards are to describe essential principles that characterise the practice of internal auditing, to deliver a framework for performing and promoting a wide range of value-added internal auditing, to create the basis for the assessment of internal audit performance, and to foster developed organizational progressions and operations (IIA, 2013). However, research

has shown that many internal auditors around the world are not in full compliance with these standards (Sadler et al., 2008; Cooper et al., 2009a) and this results in ineffectiveness of the internal audit function. Thus, this is one of the reasons that motivated the researcher to conduct this study. Some researchers have identified and examined factors related to the lack of compliance with the standards (Burnaby & Hass, 2009; Marais et al., 2009). Examples of these factors are the number of years that the organisation has had membership of the IIA or the quality of the staff in the internal auditing department. Other studies have examined compliance with standards around the globe from the perspective of internal factors, like internal auditors' educational level (college degree), professional certification including the IIA's premier certification, Certified Internal Auditor (CIA), membership of organisations and age of internal audit staff. These factors gave useful feedback for organisations and stakeholders about the reasons for non-compliance with the standards from a direct and internal perspective. These studies, however motivated the researcher to examine this problem of non-compliance from a wider, external and environmental perspective, that of foreignness. Based on the literature, foreignness is important because it considers the differences between two environments. For example, in organizational culture, foreignness is generally understood to mean the dissimilarity or lack of agreement in action contexts between two different environments (Kindleberger, 1969; Hymer, 1976). In this global environment, multinational enterprises (MNC) conduct business in foreign countries and often attempt to perpetuate their home corporate culture in the new environment. This is often difficult and fraught with challenges because of the many costs arising from the unfamiliarity of the environment such as cultural, political and environmental differences (Zaheer, 1995); thus, foreignness is generally viewed as a liability.

Cultural features of Saudi Arabia are affected by personal relationships, religion, and a hierarchical social structure. This structure is based on the tribal scheme which determines power and has an impact on government procedures (Faksh, 1983). Favouritism, for instance, (as one of the independent variables of this study) looking for favourable decisions through one of the executive's favoured persons, is customary. Furthermore, Assad (2002) pointed out that in Saudi Arabia, cultural values, social structure, and relationship patterns, such as personal relationship, friendship, loyalty to family are highly respected by the local people. Thus, all these types of variables restrict professionalism in many organizations (Kwong & Levitt, 2009). Bjerke and Al-Meer (1993) claimed that Saudi managers are in a society that considers loyalty to family and friendship as important and influential factors in the workplace environment. It is common for Saudi managers to depend on these relations for getting their needs done in their organisation. Therefore, formal planning strategies and policies might become facades and shells in front of these clusters of relatives, which will affect the efficiency and sufficiency of corporate performance and compliance with the standards.

In the case of the IIA standards, they are developed in a largely Anglo-American cultural setting and issued in the English language, but intended for global use by many people who are not necessarily of Anglo-American culture, nor have English as their first language. While many users may have a good understanding of the English language, research has shown that culture affects the understanding of language (Gumperz & Cook-Gumperz, 1982; Brannen, 2004). Even where the standards are translated into foreign languages, this may still result in different meanings being derived, as research has shown that a significant amount of meaning can be lost in *Translation* (Bassnett, 1998b; Joseph, 1998). In addition

to language differences, cultural norms determine what is and is not acceptable in social and business environments. Foreignness in this study refers to social capital which includes Relational Social Capital (Personal Social Capital, Friendship Social Capital and Family Social Capital) and Linguistic Social Capital (Understanding and Translation). As suggested by Abdolmohammadi (2009), culture could thus also potentially affect compliance with auditing standards. The study thus proposes that the problem of non-compliance may be due to the effects of foreignness. Foreignness can be depicted through social capital, which refers to the relationships between persons and entities that would run the processes in the business environment more smoothly. Because of differences in language and culture, or was assumed that social capital will be developed differently in different cultures and will impact the work environment differently, especially considering that in some nations, culture such as traditional customs have a strong impact on the business community inside the organisation. The study proposes that either auditors may fail to relate to audit standards within the contexts of their cultures or alternatively, there may be a re-contextualization of auditors' interpretations of the standards when they take on new meanings in distinct cultural environments. Both instances would lead to failure to comply with auditing standards. Based on this, this study proposes that linguistic and social capital influences whether and to what extent internal auditors comply with standards. Thus, one of the motivations of the study was to explore the effect of external factors on compliance with the International Standards for the Professional Practice of Internal Auditing, which might explain the reason for ineffective rules inside listed companies in Arab countries.

Another motivation comes from the background of the researcher. The researcher worked in the accounting and internal audit department for 10 years and during this period, observed several instances of unfair treatment and practices that did not match with company policy and professional standards. Most of these practices involved informal ties among relatives and friends. This encouraged the researcher to consider *Relational Social Capital* such as personal, friendship and family connection as independent variables that influence the compliance with the International Standards for the Professional Practice of Internal Auditing.

1.3 Research Methods

A research methodology represents the philosophy of the framework for developing the research project. In other words, it is about the approach the scholar wants to apply in his research. Saunders et al. (2011) claimed that the philosophy of the research includes all the prcesses and procedures used to gain knowledge and investigate effects. This research adopts Saunders' research design. Saunders et al. (2011) classified research into six levels and labelled the model as "the research onion" (Saunders et al., 2011:130). This study is based on positivist philosophy. In terms of research approach, this study adopts a deductive approach because it moves from general to specific. A questionnaire strategy was used to test the research hypotheses. Therefore, a mono-method, quantitative method was the main choice to be applied in this study. In relation to time horizons, a cross-sectional design was utilized for data collection. Companies were selected from the Saudi Stock Exchange Market from different sectors, to have a diversity of responses from many industries. A survey questionnaire design with a 7-point scale (1= strongly disagree, 7= strongly agree) was used in this study. Oppenheim (2000) claimed that the greater the degree of answer

variety, the greater the degree of reliability. Bertram (2007) stated that from human judgment, scaling is the suitable tool for measurement, which allows scholars to classify individuals' responses and attitudes on a scale, so the outcomes of participants are comparable. The Likert scale is also known, in some cases, as a summated scale because it is based on some calculations such as summing or adding individuals' actions or responses to get a total score. This scale allows researchers to assess the attitudes of the respondents numerically and create a ranking.

The reason why the researcher chose Saudi Arabia is because all independent variables can be implemented in this country; the official language in Saudi Arabia is not the same as that of the standards, the business environment in Saudi Arabia has numerous successful American and European organisations, and the culture in Saudi Arabia, for instance loyalty to family, personal relationship, and friendship encouraged the researcher to implement the study in this country. In addition to this, at the present time, several countries such as Egypt, Libya, Tunisia, Iraq, Yemen and Syria are suffering from instability as a result of the Arab Spring. Therefore, the researcher selected Saudi Arabia because of its safety.

After data collection, the researcher used Partial Least Squares Structure of Equation Modelling (PLS-SEM) to analyse the data. The study applies the Throughput Model, which has four components, Information (I), Perception (P), Judgment (J) and Decision (D), linked by six possible pathways. The Throughput Model provides a broad conceptual framework for examining interrelated processes that influence decisions affecting organisations.

1.4   Research Objectives and Questions

The study has many objectives and research questions. The first and second objectives, which are the main objectives, are related to *Linguistic Social Capital*, while the other objectives and questions are related to Relational Social Capital. The first objective is to examine the *Understanding* of the Standards of internal auditors for whom English is not the first formal language. Therefore, the question emerging from this objective goes thus:

Question 1: Do internal auditors who do not speak English as a first language fully understand the International Standards for the Professional Practice of Internal Auditing?

This question can be broken down into two sub-questions:

Question 1 a: Do internal auditors who do not speak English as a first language fully understand the term, *Residual Risk*?

Question 1 b: Do internal auditors who do not speak English as a first language fully understand the tern, *Add Value*?

The second objective is to examine the *Translation* of the International Standards for the Professional Practice of Internal Auditing whom English is not the first official language. Therefore, the question emerging from this objective goes thus:

Question 2: Do internal auditors who do not speak English as a first language fully understand the *Translation* of the International Standards for the Professional Practice of Internal Auditing in their local language?

 This question can be broken down into two sub-questions:

Question 2 a: Do internal auditors who do not speak English as a first language fully understand the *Translation* of the term, *Residual Risk* in their local language?

Question 2 b: Do internal auditors who do not speak English as a first language fully understand the term, *Add Value* after translation into their local language?

The third objective of this study is to examine the influences of host country *Relational Social Capital* on internal auditors on the International Standards for the Professional Practice of Internal Auditing. Consequently, the next question based on this objective is:

Question 3: Does the *Relational Social Capital* in host country affect compliance with the International Standards for the Professional Practice of Internal Auditing? This objective and question can be broken down into nine sub-objectives and questions as follows:

Objective 3.1. This sub-objective is to examine the effect of *Family Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standards number AS 1100. Its sub-question is as follows:

Question 3. 1: Does the *Family Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding *Independence and Objectivity* standards number AS 1100?

Objective 3. 2: This sub-objective is to examine the effect of *Family Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standards number AS 1120 and its sub-question is as follows:

Question 3. 2: Does the *Family Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standards number AS 1120?

Objective 3.3. This sub-objective is to examine the effect of *Family Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standards number PS 2110 and its sub-question is as follows;

Question 3. 3: Does the *Family Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Governance* standards number PS 2110?

Objective 3. 4. This sub-objective is to examine the effect of *Friendship Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Independence and Objectivity* standards number AS 1100. Its sub-question is as follows:

Question 3. 4: Does the *Friendship Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standards number AS 1100?

Objective 3. 5. This sub-objective is to examine the effect of *Friendship Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standards number AS 1120. Its sub-question is as follows:

Question 3. 5: Does the *Friendship Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Individual Objectivity* standards number AS 1120?

Objective 3. 6. This sub-objective is to examine the effect of *Friendship Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standards number PS 2110 and its sub-question is as follows;

Question 3. 6: Does the *Friendship Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding Governance standards number PS 2110?

Objective 3. 7. This sub-objective is to examine the effect of *Personal Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing,

regarding *Independence and Objectivity* standards number AS 1100 and its sub-question is as follows;

Question 3. 7: Does the *Personal Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standards number AS 1100?

Objective 3. 8. This sub-objective is to examine the effect of *Personal Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standards number AS 1120 and its sub-question is as follows;

Question 3. 8: Does the *Personal Social Capital* influence internal auditors from complying with International Standards for the Professional Practice of Internal Auditing, *Individual Objectivity* standards number AS 1120?

Objective 3. 9: This sub-objective is to examine the effect of *Personal Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standards number PS 2110 and its sub-question is as follows:

Question 3. 9: Does the *Personal Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Governance* standards number PS 2110?

1.5   Contribution of this Study

Several studies have discussed and examined compliance with International Standards for the Professional Practice of Internal Auditing around the globe from the perspective of internal factors, for instance internal auditors' educational level (i.e. college degree),

professional certificates, Certificate of Internal Auditors (CIA), membership of organisation and age of internal audit staff. These factors gave useful feedback for organisations and stakeholders about the reasons for non-compliance with the Standards from a direct and internal perspective. However, there is limited study that examined compliance with International Standards for the Professional Practice of Internal Auditing from a wider, external and environmental perspective. This study examines the culture perspective in terms of new dimensions that limited academic studies have examined previously, but which are assumed to have a significant impact to the compliance with the International Standards for the Professional Practice of Internal Auditing. These are friendship, and the Arabic tradition, which Rice (2004) claimed impact the business culture in Saudi Arabia. The Bedouin tribal heritage refers to values such as loyalty. Rice said that loyalty to family, then the clan, and then the tribe is essential and most powerful in the Arab society. As a result of this, he found that job security and development are basically based on family loyalty and friendship, rather than technical ability or management performance. Therefore, one of the contributions of this study is to examine the effect of these cultural factors, loyalty to family, personal relationship, and friendship, on compliance with the International Standards for the Professional Practice of Internal Auditing.

In 1970 the Institute of Internal Auditors (IIA) was established in the United States of America to organise the internal audit profession. The Standards were issued in English but the official language in many countries, for instance Gulf countries, is not the same. Thus, another contribution of this study is to examine compliance with the standards from a linguistic prospective. Many countries may recognize and use English as an official language and have no trouble in the basic comprehension of the standards, but meaning

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may not be completely and accurately conveyed in the nuances of the language that are unique to different cultural settings. As a result of this differentiation, the study assumes that language will play a critical role with regard to *Understanding* and consequently complying with the standards. In non-English speaking countries, the IIA has tried to solve this issue by translating the standards into the host country language. However, Mont (2012) claims that the approach of translating compliance materials from one language to another is not ideal, as much meaning is lost in translation. He pointed out that when this is necessary, there is need for it to be done by a specialist who can understand the nuances of specialist terms because there are challenges behind a simple term translation. He also found that managers cannot translate a particular policy and tell the employees that this is the law and they must follow it, because in many countries this method does not work. Individuals will not fully adhere to the policy due to misunderstanding of specialist terms. Therefore, *Understanding* and *Translation* can be considered as the main dimensions of the LSC, *Linguistic Social Capital*. Thus, this research contributes to the literature by examining how foreignness, social capital (language and relational social capital) are critical elements of *Understanding* cultural patterns that affect the practice of internal auditing. It also contributes to the understanding of why internal auditors are not in compliance with global standards by looking at the problem from a wider perspective and drawing attention to external environmental factors which might be hard for senior managers to manage. The study suggests that solving the internal factors related directly to the organization or its resources is not the ultimate solution to compliance with the auditing standards. Moreover, if a particular organisation attempts to adopt a certain strategy to eliminate negative effects associated with internal factors, there are complicated external environmental factors that may not be controllable, such as foreignness. Thus, the main

significant contribution of this study is to examine *foreignness* as a major concept that affects internal auditors' compliance with audit standards from the environmental perspective of social capital. In other words, the study examines the influence of social capital (Personal Social Capital, Friendship Social Capital, and Family Social Capital) on compliance with International Standards for the Professional Practice of Internal Auditing (*Independence and Objectivity, Individual Objectivity*, and *Governance*). The study also examines the effect of *Linguistic Social Capital* (*Understanding*, and *Translation*) on compliance with International Standards for the Professional Practice of Internal Auditing regarding professional terms such as *Add Value* and *Residual Risk*.

Another important contribution to this study is in its operationalization of culture. Although limited studies focused on environmental factors, most of these studies rely on Hofstede's model (Lonner et al., 1980) which is based on five main dimensions as follows: Power Distance (PD) refers to the classes in society or in entities, Uncertainty Avoidance (UA) concerns the degree to which a culture is comfortable with uncertainty and ambiguity. Individualism and Collectivism (IDV) distinguish between individualistic cultures, where people are concerned with their individual needs and goals, and societies with collectivistic culture, where interaction among team members is high, Masculinity-Femininity (MAS) is related to the degree to which values typically related with masculinity, such as dominance and aggressiveness, and femininity, for instance emotional openness, compassion, and empathy are favoured. In masculine cultures people are more aggressive and have more focus on job performance than personal needs and feelings and they are less concerned about the quality of the professional environment. The last dimension is Long term or Short term orientation (LSO) The long term culture focuses on the future and makes a plan for the following years, whereas, the short term culture is more concerned about the present and

sometimes the past as well. This is a well-established model that has been used for a long time but it may not fit or not be suitable for all current communities. Therefore, one of the main significant contributions of this study is an attempt to examine social capital as a major independent variable that affects internal auditors' compliance with International Standards for the Professional Practice of Internal Auditing from an environmental perspective. Thus, the contribution of this study is to examine the compliance with International Standards for the Professional Practice of Internal Auditing in relation to different cultural factors such as, personal, friendship, and family relationships, which are more suitable for developing, Arab, and Gulf countries. With regard to Indulgence societies and Restraint societies and how this relates to the study, the study concerns social capital such as Personal Social Capital, Friendship Social Capital and Family Social Capital. Therefore, indulgence societies seem to be closer to the study. For example, one of the characteristics of these societies is that having friends is very important, whereas, in Restrained societies, having friends is less important.

A third contribution relates to the internal audit profession. The nature of accounting standards is totally different from internal auditing standards in terms of standards objectives and purposes. Thus, this study contributes to literature by focusing more on the International Standards for the Professional Practice of Internal Auditing rather than International Accounting Standards. Many studies in accounting examine possible factors that hinder practising professional standards. Despite the fact that many studies in accounting have discussed, explained and examined the effect of environmental factors such as culture on accounting principles and standards, there are limited studies in internal auditing.

The fourth contribution is in regard to the professional field. The first part of the Certificated Internal Auditor (CIA) exam (2013) still relies on Hofstede's model. Furthermore, this study also provides a comprehensive perception of the host country, such as the Kingdom of Saudi Arabia to understand threatening external and environmental factors that could hinder compliance with International Standards for the Professional Practice of Internal Auditing, such as *Relational Social Capital* (personal social capital, friendship social capital, and family social capital) and *Linguistic Social Capital* (*Understanding*, and *Translation*). In addition to this, Chief Audit Executive, top management and audit committee in companies can understand how external factors influence the International Standards for the Professional Practice of Internal Auditing. This may lead them to minimize the cultural effect and increase the awareness of its potential effect, which might cause a negative impact on the rule of the internal audit and its effectiveness.

The fifth contribution to this study relates to theoretical background. One of the important research contributions is that this study uses the Throughput Model, which provides a broad conceptual framework for examining interrelated processes that impact decisions affecting organizations. This model contents of four components: Information (I), Perception (P), Judgment (J) and Decision (D) and these are linked by six possible pathways. This model has not been used to examine factors that affect internal auditing especially in professional standards such as *Independence and Objectivity, Individual Objectivity*, and *Governance* or to any related factors to social capital such as Friendship Social Capital, Personal Social Capital, and Family Social Capital. The sixth contribution to the study is that this study

uses modern software, Partial Least Squares Structural Equation Modelling (PLS-SEM) to analyse the relation between variables and constructs.

1.6   Structure of the Thesis

After this introduction in the first chapter, the next chapter of this study is about the background of internal audit, and associate organisations that relate to it such as the Institute of Internal Audit in standards' home country. In this chapter, the study presents some important organisations in the host country (Kingdom of Saudi Arabia) and their roles for instance, General Audit Bureau (GAB) and Institute of Internal Auditor (IIA) in the Kingdom of Saudi Arabia, Saudi Organization for Certified Public Accountants (SOCPA) and the Capital Market Authority (CMA) in Kingdom of Saudi Arabia. Next is the third chapter, which is a literature review. The literature discussed reflects points of view, based on previous studies that suggusted reasons for not complying with the International Standards for the Professional Practice of Internal Auditing, explains more about foreignness, culture, social capital (*Personal Social Capital, Friendship Social Capital*, and *Family Social Capital*) and language with regards to *Understanding* and *Translation*. The chapter ends with the nature of the problem for the current research.

The fourth chapter is concerned with the theoretical framework and hypotheses of the study. The chapter presents the Throughput Model and its elements in six pathways, Information (I), Perception (P), Judgment (J) and Decision (D). In this section, the chapter sets out the main research hypotheses, in two main sections. The first is about *Linguistic Social Capital*, which mainly focuses on *Understanding* the *Translation* of professional terms such as *Add Value* and *Residual Risk*. The second is concerned with *Relational Social*

Capital, such as *Personal Social Capital*, *Friendship Social Capital* and *Family Social Capital*, which are connected and influence the International Standards for the Professional Practice of Internal Auditing, such as, *Independence and Objectivity, Individual Objectivity,* and *Governance*.

Chapter five discusses the methodology. This chapter presents the research design, research objectives and research questions. The chapter also discusses the data collection process and selection, and the reason why the researcher has chosen the selected market. After that is the Analysis. This chapter starts with demographic information, and on account of the pilot studies that were conducted before the main data collection. The chapter reports the outcomes of Partial Least Squares Structure Equation Modelling (PLS-SEM), internal consistency reliability (Composite Reliability), and indicator reliability. Next is the validity test that examines convergent validity, discriminant validity, and co-linearity. The rest of the analysis is about significance of path coefficients relations, and the coefficient of determination (R square value) and ends with the findings and discussion sections compares the previous studies with the current results. The conclusion is the last chapter. It summaries important aspects of this study and ends with implications, limitations, and suggestions for further research in the internal auditing domain.

1.7   Conclusion

This research started with an introductory section then explained the motivation for this research. The next section is the research method. It moved to the research objectives and questions. The first set of questions and objectives is related to *Linguistic Social Capital* and their relationship to professional terms, for example *Add Value* and *Residual Risk*. The

second set of questions and objectives is related to *Relational Social Capital* (*Friendship Social Capital, Personal Social Capital, Family Social Capital*). Regarding contribution, this study contributes to the literature in several points of view. The chapter pointed out that many studies have examined and discussed the compliance and implementation of the International Standards for the Professional Practice of Internal Auditing in relation to internal factors for example, insufficient internal auditors, lack of support by top management, limited number of Certified Internal Auditors (CIAs), and low level of education. However, limited studies examine the compliance with the International Standards for the Professional Practice of Internal Auditing from wider perspectives, for example, *Relational Social Capital* (*Personal Social Capital, Friendship Social Capital, and Family Social Capital*) and *Linguistic Social Capital* (*Understanding*, and *Translation*).

Another contribution of this study is that many studies examine the impact of the environmental factors on the compliance with international standards from certain cultural factor such as Hofstede's model, which includes five dimensions (Power Distance (PD), Uncertainty Avoidance (UA), Individualism and Collectivism (IDV), Masculinity-Femininity (MAS), and Long-term versus Short-term orientation (LSO). However, the contribution to this study is to examine the compliance with the International Standards for the Professional Practice of Internal Auditing in terms of different cultural factors such as, personal, friendship, and family relationships, which are more suitable for developing, Arab, and Gulf countries. Moreover, there are very few studies that examine the compliance with the International Standards for the Professional Practice of Internal Auditing from a linguistic perspective, especially from understandability and *Translation*

perspectives. Therefore, this study is concerned about the linguistic perspective. The third contribution is related to the limited studies in the literature of internal audit. Many scholars investigated and examined external factors on the compliance with the international standards such as accounting, and external auditing, but limited studies concentrated on internal auditing in which the differences between the two fields of research and standards' goals and objectives vary and are noticeable. As additional contribution to the professional field, the first part of the Certificate Internal Auditor (CIA) exam (2013) still refers on Hofstede's model, which is over thirty years old. Therefore, another contribution from this study is to educate and provide new perspectives to professional authorities and practitioners, such as the Institute of Internal Auditors and its members, to help them to have deeper understanding of international communities in the home country of the Standards, which is the United States. Furthermore, this study also provides a comprehensive perception of the host country, such as the Kingdom of Saudi Arabia to facilitate understanding of how external and environmental factors could hinder compliance with the International Standards for the Professional Practice of Internal Auditing, such as *Relational Social Capital* (*Personal Social Capital, Friendship Social Capital,* and *Family Social Capital*) and *Linguistic Social Capital* (*Understanding* and *Translation*). The fifth contribution to this study relates to the theoretical background. One of the important research contributions is that this study uses the Throughput Model, which provides a broad conceptual framework for examining interrelated processes that impact decisions affecting organizations. This model consists of four components which make up the throughput model, Information (I), Perception (P), Judgment (J) and Decision (D) and these are linked by six possible pathways. This model has not been used to examine factors that affect internal auditing especially in professional standards such as *Independence and Objectivity,*

Individual Objectivity, and *Governance* or to any factors related to social capital such as *Friendship Social Capital, Personal Social Capital, and Family Social Capital*. The last contribution of the study is that the use of modern software, Partial Least Squares Structural Equation Modelling (PLS-SEM) to analyse the relation between variables and constructs.

2. CHAPTER TWO: THE INTERNAL AUDIT AND ITS STANDARDS IN HOME COUNTRY AND COMPLIANCE WITH THE STANDARDS IN HOST COUNTRY

2.1 Introduction

This chapter presents the history of internal audit, its background and how the profession has developed nationally and globally. This chapter also discusses the organisation that developed the profession of internal audit, the Institute of Internal Auditors. Furthermore, it discusses the beginning of the Institute of Internal Auditors in the home country and the host country. It also presents the International Standards for the Professional Practice of Internal Auditing and its main categories, which include the Attribute Standards (AS) and the Performance Standards (PS). The AS consider the attributes of entities and individuals performing internal auditing, while, the PS refer to the nature of internal auditing and deliver quality standards against which the performance of these services can be assessed. The attribute standards include independence and objectivity, AS 1100, *Individual Objectivity* AS 1120, whereas Performance Standards include *Governance* PS 2110. Moreover, this chapter gives information feedback on the market and its background in the Kingdom of Saudi Arabia. It also discusses the profession in Saudi Arabia and the role of the main professional bodies in the host country, such as the General Audit Bureau, the Institute of Internal Auditors in the Kingdom of Saudi Arabia, the Saudi Organization for Certified Public Accountants (SOCPA), and the Capital Market Authority (CMA).

2.2   The Background of Internal Audit

Internal auditing is a long-established profession. It dates back as far as 3500 BC, with the books of a Mesopotamian civilisation. Early Egyptian, Chinese, Persian, Hebrew and Greek records also show evidence of internal control (Sadler et al., 2008). Internal auditing is an independent department that works on behalf of the administration, the chief executive managers, and the stakeholders of public and private organisations to develop and *Add Value* to risk management, control, and governance processes. This is different from external auditing, which helps third parties who require trustworthy financial information based on reliable supporting records. Instead, internal auditors have a wide focus that requires them to examine and evaluate controls, financial performance, compliance with regulations and rules, and operational performance for their effectiveness. Rather than solely focusing on historical actions, as external auditors do, internal auditors support the board and management make future-oriented decisions. For instance, internal auditors may judge whether planned operations have suitable controls in place to be likely to attain organisational aims and objectives.

Before and during the Second World War, industrial evolution started and trade transactions expanded rapidly. This trend made it difficult for managers to manage and obtain sustainable control in their internal and external entity operations. Furthermore, another significant factor that made it difficult for management to manage their organisation operations sufficiently and efficiently was the compliance with government rules and regulations. As a consequence, a new function (internal auditing) emerged and was established in the United States of America in 1941. In 1957, 20% of the total internal audit membership was outside the United States of America (IIA, 2009). In 2011 this

percentage increased to 170.000 members over 165 countries. In June 1999 the head of the IIA extended the focus of internal auditing. The main function of internal audit was to assess internal control. After this date the function of internal audit was more influential. Internal auditing is an independent department, objective assurance and consulting activity that aims to develop and *Add Value* to entity operations. Moreover, internal audit assists a company or an entity to achieve its goals through systematic and suitable methods to assess the impact of risk management, and control develop, and governance procedures. The wider definition of internal auditing includes various functions such as, consulting services, value-added services for the assessment and development of the impact of risk management and governance policy (IIA, 1999).

2.3   *The Institute of Internal Audit (IIA) & its Standards*

In 1970 The Institute of Internal Auditors (IIA) was established to organise the profession. According to the IIA definition of Internal Auditing, Internal auditing is an independent department that provides objective assurance and advisory activity designed to *Add Value* and develop an entity's processes. It helps a firm achieve its aims by employing a systematic, disciplined method to assess and develop the effectiveness of risk management, control, and governance procedure. The IIA provides members with an International Professional Practices Framework (IPPF) to lead their professional practice and conform to the highest-quality internal audit effects in various environments. One of the IPPF components is the International Standards for the Professional Practice of Internal Auditing (the standards).

The IIA's International Internal Auditing Standards Board (IIASB) is the party responsible for the issuance and publication of the International Standards for the Professional Practice of Internal Auditing. The goals of the Standards are to describe essential principles that characterise the practice of internal auditing, to deliver a framework for performing and promoting a wide range of value-added internal auditing, to create the basis for the assessment of internal audit performance, and to foster developed organizational processes and operations. The structure of the Standards is divided into two types, the Attribute Standards (AS) and the Performance Standards (PS).

Figure 1 The structure of the Standards
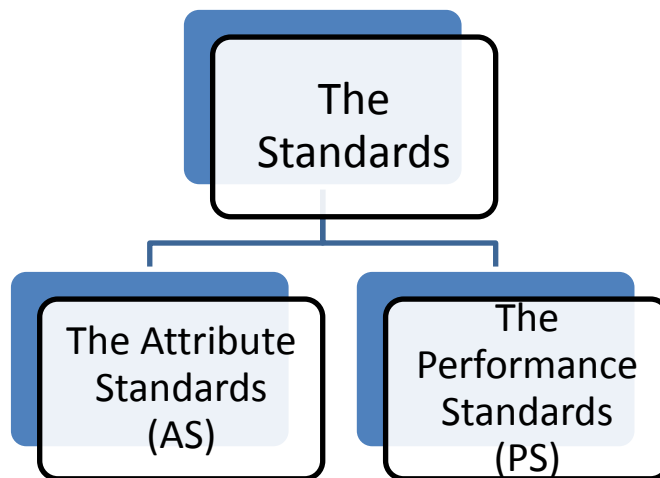
(Source: Author)

The AS consider the attributes of entities and individuals performing internal auditing, while the PS refer to the nature of internal auditing and deliver quality standards against which the performance of these services can be assessed (IIA 2013).

Figure 2 The structure of the Sub-Standards

Attribute Standards (AS)	Performance Standards (PS)
1000-10	2000
1100-30	2010-70
1200-30	2100-30
1300-22	2200-40
	2300-40
	2400-50
	2500
	2600
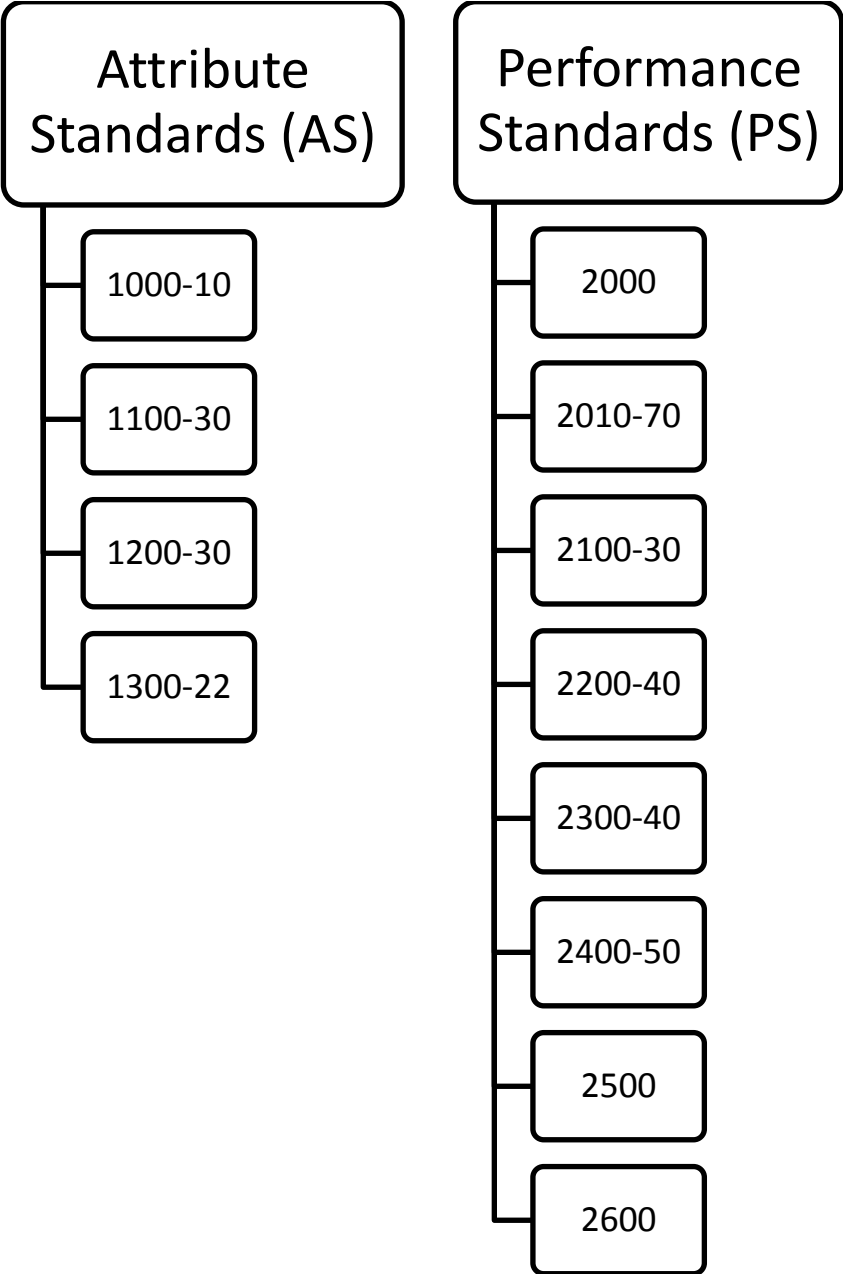
(Source: Author)

Table 1 Sub-Standards

1010 – Recognition of the Def. of Internal Auditing, the Code of Ethics, and the Standards in Audit Charter
1110 – Organizational Independence
1111 – Direct Interaction with the Board
1120 – Individual Objectivity
1130 – Impairment to Independence or Objectivity
1210 – Proficiency
1220 – Due Professional Care
1230 – Continuing Professional Development
1310 – Requirements of the Quality Assurance and Improvement Program
1311 – Internal Assessments
1312 – External Assessments
1320 – Reporting on the Quality Assurance and Improvement Program
1321 – Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"
1322 – Disclosure of Non-conformance
2010 – Planning
2020 – Communication and Approval
2030 – Resource Management
2040 – Policies and Procedures
2050 – Coordination
2060 – Reporting to Senior Management and the Board
2070 – External Service Provider and Organizational Responsibility for Internal Auditing
2110 – Governance
2120 – Risk Management
2130 – Control
2201 – Planning Considerations
2210 – Engagement Objectives
2220 – Engagement Scope
2230 – Engagement Resource Allocation
2240 – Engagement Work Program
2310 – Identifying Information
2320 – Analysis and Evaluation
2330 – Documenting Information
2340 – Engagement Supervision
2410 – Criteria for Communicating
2420 – Quality of Communications
2421 – Errors and Omissions
2430 – Use of Conducted in Conformance with the Standards
2431 – Engagement Disclosure of Non-conformance
2440 – Disseminating Results
2450 – Overall Opinions
2500 – Monitoring Progress

(Source: Author)

The AS and the PS are divided into the following broad categories; the AS; AS 1000, Purpose, Authority and Responsibility; under this standard there is sub-standard AS 1010, Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter. AS 1100, Independence and Objectivity; the sub-standards for this standard are, AS 1110, Organisational Independence, AS 1111, Direct Interaction with the board, AS 1120, Individual Objectivity, and AS 1130, Impairment to Independence or Objectivity. AS 1200, Proficiency and due professional care, and the sub-standard are; AS 1210 Proficiency, AS 1220 Due Professional Care, and AS 1230 Continuing Professional Development. AS 1300, Quality assurance and improvement programme. This standard contains many sub-standards; AS 1310, Requirements of the Quality Assurance and Improvement Program, AS 1311, Internal Assessments, AS 1312, External Assessments, AS 1320, Reporting on the Quality Assurance and Improvement Program, AS 1321, conformance with the International Standards for the Professional Practice of Internal Auditing, and AS 1322, Disclosure of Non-conformance. The second category is the PS, divided as follows: PS 2000, Managing the Internal Audit Activity, the sub-standards are; AS 2010, Planning, AS 2020, Communication and Approval, AS 2030, Resource Management, AS 2040, Policies and Procedures, AS 2050, Coordination, AS 2060, Reporting to Senior Management and the Board, and AS 2070, External Service Provider and Organizational Responsibility for Internal Auditing. PS 2100, Nature of work; the sub-standards for this standard are PS 2110, *Governance*, PS 2120, Risk Management, and PS 2130, Control. PS 2200, Engagement planning; the sub-standards for this standard are PS 2201, Planning Considerations, PS 2210, Engagement Objectives, PS 2220, Engagement Scope, PS 2230, Engagement Resource Allocation, and PS 2240, Engagement Work

Program. PS 2300, Performing the engagement; the sub-standards for this standard are PS 2310, Identifying Information, PS 2320, Analysis and Evaluation, PS 2330, Documenting Information, and PS 2340, Engagement Supervision. PS 2400, Communicating results; the sub-standards for this standard are, PS 2410, Criteria for Communicating, PS 2420, Quality of Communications PS 2421, Errors and Omissions, PS 2430, Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing" (IIA, 2013:16), PS 2431, Engagement Disclosure of Non-conformance, PS 2440, Disseminating Results, PS 2450, Overall Opinions. PS 2500, Monitoring Progress, and PS 2600, Resolution of management's acceptance of risks.

2.4   The Situation in the KSA

2.4.1 Saudi Stock Market

The Kingdom of Saudi Arabia has a relatively recent development pathway. In the 1930s oil was found in the Kingdom of Saudi Arabia and from that time the economy grew gradually until it became one of the largest and best suppliers around the globe. The largest oil company worldwide is ARAMCO (Arabian American Oil Company) which is owned by the Kingdom of Saudi Arabia. Associated with this economic increase has been a growth in the public sector, which is managed with respect to cultural values (Alzeban & Sawan, 2013). The first informal Saudi Stock Market started in 1934 as a result of the formation of a joint stock company, the Arabian Automobile Company. At that time there were no rules to control this situation. During the 1950s, the number of joint stock companies increased to four. By 1970 the number of joint stock companies had reached 17 and the market was controlled by around 32 brokers and by several rich Saudi investors. After that, between 1971 and 1985 the number of companies in the Saudi Stock Market,

(which was still an informal market) increased dramatically and become 57 companies, mainly in cement and electricity, and the commercial banks were the main source of financing. However, the Saudi Stock Market was still an informal market at this stage.

In 1980s, the Souk Al-Manakh in Kuwait, which shared a similar informal structure to the Saudi stock market, fell. This collapse caused leaders and decision makers in Saudi Arabia to rethink their stock market structure in order to avoid or minimize any financial market crisis in the future. As a consequence, in 1983, the Saudi government issued a new decision (Royal Decree number 1320/8) to establish a committee to organise and regulate the Saudi stock market. This committee consisted of three members; the Minister of Finance and National Economy, the Minister of Commerce and the Governor of SAMA (Saudi Arabian Monetary Agency). In 1984, the committee issued several rules and regulations to control financial transactions and commercial bank activities related to the Saudi market (Basheikh, 2002).

In 1987, the formal Saudi Stock Market was established in the capital of Saudi Arabia, Riyadh. From 1987 until the mid-1990s, stock transactions were made manually, which consumed much time and effort. In the mid-1990s, SAMA changed from a manual to a computerised system, called the Electronic Securities Information System, in order to improve the effectiveness of the Saudi market system (Al-Bogami, 1996). By 1997, the total number of companies in the Saudi stock was 70, involved in various sectors, such as commercial banks, services, industrial, cement, agriculture, and electricity. In addition to this, the number of transactions increased significantly in this year and the total amount of stock trading increased from 25.4 billion Riyals in 1996 to 62.1 billion Riyals in 1997. By

the end of 2014, the Saudi market capitalization of issued shares increased to 1752.9 billion Riyals. On March 2007, and according to Article 20 of the Capital Market Law, (http://www.sama.gov.sa) a new organisation called Tadawul was established by the Council of Ministers. The Tadawul is located in the capital of Saudi Arabia, Riyadh. It is the only authorized organisation in the kingdom of Saudi Arabia that can perform two functions. First, as the Securities Exchange (the Exchange) and second as the Securities Depository Centre (the Centre). It is basically concerned with listing and trading in securities, and also deposit, transfer, clearing, settlement, and ownership registration of securities traded on the Exchange. Furthermore, Tadawul is the official source of all market information, as stated in the Capital Market Law (CML) which was issued by Royal Decree Number (M/30), on June 16, 2003. Tadawul's capital is 1200 million Saudi Riyals divided into 120 million shares. All shares are equal in value (10 Saudi Riyals) and all are cash shares subscribed by the Public Investment Fund. Tadawul is an affiliate member of the International Organisation of Securities Commissions (IOSCO), the World Federation of the Exchange of Exchanges (WFE), and the Arab Federation of Exchanges (AFE). Currently, the total number of companies in the Saudi Stock Market is 166 companies, across 16 sectors; Banks & Financial Services (12 banks), Petrochemical Industries (14 companies), Cement (13 companies), Retail (13 companies), Energy & Utilities (2 companies), Agriculture & Food Industries (16 companies), Telecommunication & Information Technology (5 companies), Insurance (35 companies), Multi-Investment (7 companies), Industrial Investment (14 companies), Building & Construction (16 companies), Real Estate Development (8 companies), Transport (4 companies), Media and Publishing (3 companies), and Hotels & Tourism (4 companies).

2.4.2 The Background of Internal Audit in Saudi Arabia

In Saudi Arabia the accounting profession was first recognised and top management in organisations requested to present audited financial statements for stakeholders in the 1965 Companies Act, while the auditing profession in Saudi Arabia was first organised in the 1974 Law of Certified Accountants. Articles 2 and 3 set requested registration of external auditors with the Ministry of Commerce. The oil began in the 1970s and consequent growth in Saudi Arabia's GNPs boosted government expenditure, and hence, the formation of private organisations. As a consequence of these changes, King Saud University hosted two conferences in 1982 and 1983, to address the accounting and auditing issues raised by these development. After the second conference, a report was submitted to the Ministry of Commerce, identifying difficult issues and giving a plan for the improvement of accounting and external auditing standards. The Ministry of Commerce authorised the establishment of three separate teams to work on the development of financial accounting standards, external auditing standards and the development of the accounting profession. Arising from this work in 1986 the Ministry of Commerce Decision No. 692 in 1986, consisting in two parts: Accounting, Objectives and Concepts, and General Standard of Presentation and Disclosure, and Auditing Standards. A significant development was the issue of Royal decree No. M/12 in 1992 establishing the Saudi Organization for Certified Public Accountants (SOCPA) within the Ministry of Commerce. Technical committees within the SOCPA are responsible for advancing the development of accounting and external auditing standards in Saudi Arabia. These duties are overseen by a board, consisting of 13 people and closely supervised by the Ministry of Commerce through its representatives, the Minister and Deputy Minister of Commerce and the Deputy Minister of Finance. The rapid rise in the number of profit organizations in Saudi Arabia, their growth in size and the

advent of new technology generated further demand for internal control, monitoring and assessment. Nevertheless, there were no government moves towards developing internal audit, nor has SOCPA been involved in this endeavour. Rather, encouragement of internal audit has been driven by the formation of IIA chapters in 1982 in Dhahran in the eastern region of Saudi Arabia, in 1992 in Jeddah in the western region and in 2000 in the capital, Riyadh.

The Dhahran chapter was created within the government owned Aramco Company, with the key aims of increasing the number of IIA affiliates and to control the examinations enabling internal auditors in the region to qualify as CIAs. The chapter has made efforts to spread good practice and share newsletters, as well as by connection with King Fahd University in Dhahran. By 2000 the chapter had about 75 affiliates about a quarter of them were Saudi nationals. However, its work was constrained by a lack of resources and legal restrictions on its activities. The CIA examinations have been held twice a year since the creation of the Dhahran chapter, with the number of candidates increasing year on year until around 35 people, would typically sit the examinations. However, few Saudis passed the CIA examinations on the attempt; only six between 1996 and 2000. Whilst the introduction of these examinations can be viewed as a step forward in the development of internal audit in Saudi Arabia, the limited number of CIAs is a serious concern. According to the Chairman of the chapter, the explanation for this lies in language difficulties and the very technical domain of the examinations. The Chairman suggested that the CIA examinations should be translated into the local language (Arabic) in order to overcome this difficulty.

The Jeddah chapter was established by Saudi Arabia Airline Corporation, with the aim of improving internal audit in Saudi Airlines. The chapter subsequently extended its activities to include other organisations in the Jeddah area. Cooperation with academic institutions such as the accounting department in King Abdul-Aziz University played a key role in this expansion. By this means, the number of members increased dramatically by scholars and students. In 1994, around 110 candidates obtained membership and the chapter was awarded a prize for achieving the greatest increase in IIA membership worldwide. Despite this success, the chapter was confronted by a legal challenge. Saudi government law requires formal institutions or organisations to obtain approval from the authority, and this formality was neglected in this case. The failure to obtain authorization led to closure of the chapter in 1997 (Al-Twaijry et al., 2003). Asairy (1993) investigated Saudi joint-stock companies, by means of a questionnaire distributed to heads of internal audit departments, top management, staff, and external auditors. The outcome pointed to several factors that affected the effectiveness of internal audit in Saudi joint-stock market in these companies. For example educational background, professional qualification in internal audit, and training. Asairy (1993) highlighted the need for Saudi joint-stock companies to develop and improve the internal audit function and also recommended that internal audit be taught as a separate discipline in Saudi universities.

2.4.3 The General Audit Bureau (GAB) and Institute of Internal Auditor (IIA) in Saudi Arabia

In the context of Saudi Arabia, occasionally the profession of internal audit has focused on the propriety of business dealing and accounting. Prior to 2004 there was no legal obligation for internal audit to exist in Saudi Arabia. However, since the issue of

Resolution No 235 (2004), all public organisations have to be audited by the General Audit Bureau (GAB) and all organisations must create an internal audit function. However, many organisations in the public sector do not comply with this directive and are run without consideration of the internal audit function (Alzeban & Gwilliam, 2012). Alzeban and Sawan (2013) pointed out that there were several reasons why public organisations were required to be audited by the General Audit Bureau at that time. One of the important factors was to minimise the corruption that existed in public organisations and decrease the number of mistakes, sub-normal trends and fraud. In addition to this, the current internal control system needed to be developed or even changed for a solid internal control scheme. However, the growth of the economy had led to an increase in the total number of organisations and as a result, increased government expenditures and a huge number of accounting and operational transactions. These trends made it difficult for the General Audit Bureau to manage and control all these activities in an efficient and effective ways, one of the reasons being staff qualification. It was undeniable that some organisations did not consider and pay full attention to the function of internal audit and were not fully prepared to handle financial errors.

The IIA-KSA is an affiliate of the worldwide organization. It is a non-for-profit professional institute dedicated to the progression and promotion of the Internal Auditing career path in the Kingdom of Saudi Arabia. The international Institute of Internal Auditors granted Prospective Institute status to the IIA Saudi Arabia (IIA-KSA) in August 2009 and Institute-in-Formation status in December 2009. In February 2011, the IIA-KSA received the approval of the Saudi Arabian government's Council of Ministers for its charter and this was soon followed by the IIA-KSA receiving full institute status. Therefore, the Saudi

Institute of Internal Auditors is a professional institute, established under the Council of Ministers Resolution No. (84) on 28 February 2011, a non-profit affiliate of the IIA that is locally under the management of the Ministry of Commerce and Industry. IIA Saudi Arabia is governed by a Board of Directors whose affiliates are Internal Audit specialists based in Saudi Arabia. IIA Saudi Arabia is a Full Organization under the IIA Global Institute since July, 2012 (http://www.iia.org.sa/en/iia-ksa-home).

2.4.4 Saudi Organization for Certified Public Accountants (SOCPA)

The Saudi Certified Public Accountants' Principles issued under Royal Decree No. M/12 on 13.05.1412H (1992 G) delegated the Saudi Organization for Certified Public Accountants (SOCPA) to develop the accounting and auditing profession including all issues that could improve its status via achieving the following objectives. first reviewing, improving, and developing accounting standards, reviewing, improving, and developing auditing (external) standards, thereby creating the essential procedures for granting a certificate of public accounting examination which includes all aspects of profession, scientific, and practical application of external audit and valid rules, managing a continuing education scheme and programmes, creating suitable rules that ensure Certificate of Public Accountants (CPA) do the required work and comply with professional standards, supporting scientific accounting and auditing research and other relevant research, publishing bulletins and books related to accountancy and auditing, and participating in various accounting and auditing committee locally and internationally. This entity is a Saudi professional organisation, which consists of around 500 professional members. Through these numbers, SOCPA provides guidance based on accounting

knowledge, skills, professional experience and supervision of the profession and it provides interested organisations or individuals' with a clear vision of the role of SOCPA in the kingdom of Saudi Arabia. In addition to this, the SOCPA supports individuals and organisations to do business with high level of confidence by providing them with required and suitable economic values to achieve its goals and objectives (SOCPA, 2017).

2.4.5 Capital Market Authority (CMA)

The Capital Market Authority (CMA) in the Kingdom of Saudi Arabia started informally at the beginnings of 1950s, and continued effectively, until the Saudi government regulated same basic rules in the 1980s. The Capital Market rule is under Royal Decree No. (M/30) on 02.06.1424H, which brought the Capital Market into formal existence. The Capital Market Authority is an independent governmental entity, fully financed, legal, and reporting directly to the Prime Minster. The function of the Capital Market Authority is to control and improve the market in the Kingdom of Saudi Arabia by issuing necessary policies and procedures to create a suitable environment for investors. In addition to creating a suitable environment for investors, the CMA tries to increase confidence, establish a high level of disclosure in all Saudi listed companies, and prevent dealers and investors from illegal practices in the market. Moreover, the CMA has duties and authority to manage and improve the capital market and promote suitable standards and approaches for every sectors and organisation that involved in Securities Trade Operations, aim to prevent users from unfair practices such as fraud, dishonest and insider information and sustain fairness, and efficiency in market operations (CMA, 2017).

2.5   Summary and Conclusion

This chapter gave a background of the history of the internal audit profession, from an early age to its spread around the globe. Moreover, the chapter drew attention to a well-known institution that led and developed the internal audit: the Institute of Internal Auditors (IIA). In addition to this, it discussed the establishment and the beginning of the International Standards for the Professional Practice of Internal Auditing and its main categories and sub-standards and how the standards were adopted from the home country, United States of America, to host countries. This chapter also explained the status of internal auditing in the Kingdom of Saudi Arabia. It discussed the beginning of the Saudi market and the background of internal audit in Saudi Arabia. The chapter presented and summarised the roles of well-known professional bodies in Saudi Arabia, such as the General Audit Bureau, the Institute of the Internal Auditor in Saudi Arabia, the Saudi Organization for Certified Public Accountants (SOCPA), and the Capital Market Authority (CMA).

3. CHAPTER THREE: LITERATURE REVIEW

3.1 Introduction

This chapter begins by presenting and discussing previous literature in the internal audit domain and explains the reasons for ineffective rules in internal audit departments inside companies as well as why internal auditors do not fully comply with the International Standards for the Professional Practice of Internal Auditing. After that, this chapter presents the main study variables and their definitions, beginning with foreignness, which refers to the dissimilarity between two contexts. Then the chapter presents the culture dimension and its impact on social societies and the work environment. A description is provided of the nature of Saudi culture and its main characteristics. After this, the chapter illustrates the main factor assumed to influence compliance with the International Standards for the Professional Practice of Internal Auditing, which is social capital. Several types of social capital are identified, including *Relational Social Capital* and *Linguistic Social Capital*. *Relational social capital* includes personal social capital, family social capital, and friendship social capital, which are viewed as a part of Arab culture. The second dimention of social capital is linguistic, since language is one of the main challenges that hinders compliance with the International Standards for the Professional Practice of Internal Auditing. Since the International Standards for the Professional Practice of Internal Auditing were issued in English and the official language in Saudi Arabia is Arabic, the first linguistic factor that could affect implementing of the standards is understanding of the standards in English. Another factor, which also relates to the linguistic dimension, is *Translation*. This issue is considered because the Institute of the

Internal Auditors in Saudi Arabia addressed the challenge understanding the standards in their original language by translating them into the local language. The last section of this chapter identifies the research problem which, combining all the variables that are assumed to influence compliance with the International Standards for the Professional Practice of Internal Auditing.

3.2   Non-compliance with the Standards

In many countries there are many internal audit departments in various organisations that are not practising their professional role inside companies and do not fully follow the professional standards. In this regard, several studies have discussed the reason for non-compliance with the International Standards for the Professional Practice of Internal Audi2ting from internal factors. For example, Ahmad and Taylor (2009) discovered several variables that hinder compliance with international internal auditing standards in the workplace. The purpose of this study was to explore the level of usage and implementation of international standards for internal auditing in the USA, Belgium, Italy, the Netherlands, the United Kingdom and Ireland. The data were collected from the CBOK 2006 database, which was developed in 2006-2007 by the Institute of Internal Auditors Research Foundation (IIARF). The authors found many variables that affect compliance with the international internal auditing standards, for example; organisational membership in the Institute of Internal Auditors, educational and professional certificates for internal auditors and the age of employees and type of organisation. Their findings showed significant differences between countries with regard to all these variables. Finally, it can be observed from this study that all the factors that affect compliance with the Standards were related to internal factors, such as employees and entity. Limited studies have focused on

environmental factors. In most of these studies rely on Hofstede's model (Lonner et al., 1980) which is based on five main dimensions as follows: Power Distance (PD), Uncertainty Avoidance (UA). Individualism and Collectivism (IDV), Masculinity-Femininity (MAS) and Long term or Short-term orientation (LSO). Therefore, one of the main significant contributions of this study is an attempt to examine social capital as a major independent variable that affects internal auditors' compliance with International Standards for the Professional Practice of Internal Auditing from an environmental perspective such as, personal, friendship, and family relationships, which are more suitable for developing, Arab, and Gulf countries. Burnaby and Hass (2011) pointed out in their study that the general purpose of the CBOK 2006 project was to create the most inclusive database, and provide an up-to-date view of the worldwide situation of the internal audit profession. The database comprises information about compliance with the Standards as of September 2006, the situation of the IAA, employment, skills, competencies, and the new roles of the IAA. A little information was collected on the effect of cultural and official factors on the development and practice of internal auditing around the globe. However, the authors claimed that there was very limited information on the current circumstances of use of the IIA Standards, or the required skills, tools, and technologies used on engagements in current internal auditing literature. The CBOK 2006 database includes compliance with the internal auditing standards and the types of skills, tools, and techniques that respondents considered were essential for internal auditors at present, and in the future, to carry out their jobs to enhance audit efficiency and effectiveness. The research group for CBOK 2006 included three international groups that were chosen by the IIA. The first group was North, Central, and South America and the Caribbean; the second was Europe and Africa, while the last group was Asia and the Pacific. At the core of the CBOK 2006 research, three

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surveys were sent to internal auditors around the globe. The first one was sent to chief audit

executives (CAEs), the second survey sent to all other levels of internal auditors, and a final

one was sent to the IIA's members. In September 2006, utilizing the survey software

Perseus, the CAE and Practitioner surveys were sent electronically to members outside

North America by participating international members and by the IIA head office to

members who were inside North America. The total number of responses to the CAE and

Practitioner surveys was 15,028. After discussion with an independent statistical specialist,

a number of responses were identified to be not utilizable for various reasons, for instance

an empty reply or the respondent did not answer all questions on important parts, for

example adherence to the Standards. At the end of this procedure, 9,366 utilizable

questionnaires remained. Most of the participants in this research pointed out that their

IAAs implemented the internal auditing standards and practice advisories. In addition to

this they considered that the direction provided to them by internal auditing standards and

practice advisories was suitable. Standards 1300, Quality Assurance and Improvement

Program, and 2600, Resolution of Managements' Acceptance of Risk received less satisfied

responses, suggesting that extra direction may be fitting in the area of quality assurance and

improvement, and resolution of management's acceptance of risk. All in all, the guidance

provided by the AS was regarded as better than that in the PS. Respondents at all employee

levels showed that only 81.9 per cent of their IAAs utilized the Standards in full or in part.

The CAEs reported the highest level of practice (85.1 per cent) of the Standards by their

IAA, whereas, the remaining respondents reported practice from 72.2 to 84.3 per cent. The

most common reasons given by those respondents whose IAA did not adhere to the

Standards were: insufficient IAA staff (12.6 per cent); top management of entity does not

believe it adds value (12.2 per cent); too time consuming to comply with the Standards

(12.2 per cent); compliance was not supported by management of firm (11.9 per cent); and the Standards were replaced by local/government regulations/standards (10.7 per cent). Overall, the authors considered internal elements that impacted compliance with the Standards, which may be controlled be top management, either in the short or long term. However, they did not consider factors that cannot be managed.

In another study, Cooper et al. (2009b) compared the outcomes of South African respondents with all Common Body of Knowledge (CBOK) 2006 respondents in terms of compliance with the Standards and many areas of the internal audit activity's (IAA) actions. The internal auditing profession in South Africa was found to be developing and adapting to a changing environment. This paper pointed out the deeper scope of internal auditing and previous research performed in South Africa with regard to the Standards and then compared South African respondents to all the CBOK 2006 respondents in the areas of demographics, compliance with the Standards, fulfilment of the Standards' direction, many key operational areas of the IIA, types of audits performed and the entity's understanding of the internal audit activity. Improvements in public finance instruction and corporate governance were the most important elements found to have enhanced to the improvement level of the internal audit profession in South Africa over the last ten years. The King Reports on Corporate Governance (IODSA, 2017) advised that firms must have IAAs to develop corporate governance. All listed organizations in South Africa followed the suggestion of this report. This was enhanced by the promulgation of the Public Finance Management Act (PFMA), which made it an official obligation for all forms of public firms to have IAAs in agreement with the Standards. Three surveys were developed to gather information from all respondents on the current situation of the internal audit profession.

The three surveys were to: (1) Chief Audit Executives (CAEs); (2) internal audit practitioners; and (3) IIA members. The South African response rate was 9.5 per cent, with 464 replies from its 4,874 members as of September 30, 2006. In this study, the responses of the South African respondents were compared to the responses of all the respondents in the CBOK 2006 research. 81.9 % of all respondents and 93.9 % of the respondents from South Africa showed that they utilized the Standards in all or in part. In both groups, CAEs' and audit managers' percentages were the highest. These percentages were a positive sign of international acceptance and functioning of the Standards. South African respondents' use of the Standards outweighed use by all participants for each employee position by more than 10 %. Regarding compliance with individual Standards, most of the individual Standards had a maximum degree of compliance about 80 %. Only Standard AS 1300, Quality Assessment and Improvement Programs, and PS 2600, Resolution of Management's Acceptance of Risks, raised compliance concerns, as the degree of compliance was less than 80 %. In South Africa, this was the case only for AS 1300. The low compliance with AS 1300 may be ascribed to the cost of regular quality evaluation or the shortage of experience and skills to perform both global and external quality evaluation. In conclusion, most of the IAAs in South Africa showed that they practised the Standards in all or in part, compared to 85 % of all respondents. Compliance with Standard AS 1300 was the lowest, although a much higher percentage of the South African IAAs indicated that they were at that time in full compliance with this Standard. Furthermore, a high percentage of the IAAs in South Africa was using the Practice Advisories; the percentage was greater than for any other respondents' practice of the Practice Advisories. Of the South African respondents, 88.4 % disclosed that their firms had audit committees, while the worldwide response was only 72.6 per cent. Overall, the internal audit profession in

South Africa compares positively with the profession worldwide. However, regardless of the percentage of non-compliance with the Standards, the lack of compliance with the Standards was due to the lack of staff experience, which is still a factor that can be managed by top management.

Sadler et al. (2008) discussed internal auditors' practices with regard to internal auditing standards. The aim of this study was to examine internal auditors' practice and compliance with the IIA Standards for the Professional Practice of Internal Auditing (the Standards) as well as the Practice Advisories which provide specific direction for the implementation of the Standards. The sampling frame of this research included worldwide membership of the IIA. Questionnaires were sent to about 99000 members. The international affiliates and chapters were divided into three broad areas namely, North, Central and South America and the Caribbean, Asia and Australia, and Europe and Africa. The questionnaires included an affiliate questionnaire, Chief audit executive (CAE) questionnaire, and Practitioner questionnaire. Reasons for not using the Standards were related to organisational attributes, for example, managements' perceptions that the Standards did not *Add Value*, lack of sufficient internal audit activities (IAAs) employees, and that compliance took a long time. IAAs struggled to comply completely with the Standards, and AS 1300 seemed to be an obstacle to complete compliance for several firms around the globe. It was concluded that further direction with recommendations for a less costly approach to comply with this standard would result in more members completely complying with the Standards. In general, about 81.9 per cent of respondents showed that they utilized the Standards. This means that 18.1 per cent of the respondents' firms did not utilize the Standards. The highest level of use was among by CAEs (85.1%), while similar results were obtained from

respondents with other status in the IAAs. The Standards were most utilized in trade services (88.0%), professional services (87.1%), and building and construction (86.8%). The Standards were used the least in the areas of chemicals (80.2%), real estate (80.4%), and non-professional services (81.3%). The respondents who disclosed that their entities did not practise the Standards (18.1%) were asked to state the reasons for non-compliance. The survey allowed the respondents to select more than one choice. The reasons for noncompliance with the Standards were as follows; IAA staff were insufficient, top management of the firm did not think it adds value, compliance with the Standards took too long for implementation, management of the firm did not encourage compliance, and the Standards had been replaced by other local or government regulations and standards. It seemed that many of the reasons for not complying with the Standards were attributable to particular factors with regard to the individual firms represented and not to trouble with understanding the Standards. A small proportion of the factors in non-complying with the Standards were related to the size of entities, for instance too small, or being unsuitable for the industry. Some of the comments about why the Standards were not utilized were as follows: They did practise the Standards, but unofficially or only in part. They had become conscious of the Standards through study for the CIA exam, but they did not concern themselves with practising in accordance with the Standards. Rather, they did what they thought made sense, which might or might not be in accordance with the Standards. Standards were utilized to construct chapters and subdivisions and were part of the culture, but were not utilized systematically every day. Moreover, some participants mentioned that the Standards were unsuitable for use in their firms or country. In addition to this, the Standards did not produce a step-by-step breakdown of audit procedure. It was also mentioned that the Standards did not *Add Value*: the Standards focused on structure rather

than value. Conformity to the Standards and the guidelines did not guarantee high-quality work. It would be better to employ human resources for training to ensure a higher compliance in the workplace. One respondent recommended that the local chapter of the IIA should conduct an awareness campaign in his country among the non-listed and smaller firms, to confirm the need for IAAs to comply with the Standards. Many participants responded that they did not know whether they were complying with the Standards, or that the top management in their firms did not have the understanding to comply with the Standards. They also reported that top management did not see value in the standards, and the members of the Audit Committee was possibly not aware of them. The authors in this study also concentrated on factors linked with the internal environment and paid less attention to external environmental factors.

Cooper and Leung (2009) produced a general view of the internal audit activities (IAAs) in various Asia-Pacific countries and explored the practice and compliance with the Standards. This study presented the similarities and differences between Australia, China, Japan, New Zealand and Taiwan. Data in respect of Australia and Asia-Pacific countries were chosen from the CBOK (2006) database. The first questionnaire was sent to chief audit executives (CAEs), a second questionnaire sent to all other levels of internal auditing practitioners, and the last one sent to the management of the IIA's affiliates. In brief, the result showed that more internal auditors in Australia, New Zealand and Japan had superior positions than those in China and Chinese Taiwan. Most internal auditors in Australia and New Zealand had a professional certificate in accounting; however, the case was different in China, Taiwan and Japan. Whereas a higher percentage of respondent firms in China and Taiwan were younger firms, the majority of IIAs were established a few years ago. When

respondents were questioned about their full or partial compliance with individual Standards or Practice Advisories, Australia and New Zealand registered a higher percentage of full compliance (60.8 and 51 per cent, respectively) than China (38.8 per cent), Chinese Taiwan (42.6 per cent) and Japan (30.1 per cent). However, some people may not tell the truth in a questionnaire for various reasons; for example, respondents may wish to look better than they are, and so give socially desirable answers. In addition to this, sometimes people do not want to answer some questions about sensitive behaviour. Moreover, some respondents try to give the answer they believe will support and help the researcher. In many cases people believe they can affect the results of the research in their favour (Fink, 2012). In terms of questionnaire respondents, the culture and the awareness of survey importance play a critical role in people's perception. So, there rules of response vary and are not the same in all countries. Few internal auditors complied fully with Standard 1300 Quality Assurance and Improvement System, with more internal auditors in China, Chinese Taiwan and Japan claiming partial compliance. The case was similar for Standard 2600 Resolution of Management's Acceptance of Risks. Overall, more internal auditors in every country except Australia considered that the Standards and Practice Advisories were costly to comply with the Standards. Moreover, about 20 per cent of Chinese and Taiwanese internal auditors pointed out that the Standards and Practice Advisories were replaced by local regulations. In addition to this, more than one-third of the Chinese internal audit respondents said that a major reason for not complying with the Standards was an insufficient number of internal audit employees, which was a similar reason to that given in most previous studies.

Abdolmohammadi (2009) claimed that there are personal and organisational variables behind the lack of use of the international internal auditing standards. This study was conducted in five cultural regions of Anglo-Saxon, East-European, Germanic-Europe, Latin-American, and Latin-European. The aim of the study was to explore factors associated with the use of and compliance with international standards. The author investigated two main sets of variables: chief audit executives (CAE's) variables such as hours of training, and organisational variables, for instance, cost of use of the international internal auditing standards and differences in evaluation of internal audit as adding value to the organisation from CAE and top management points of view. However, these variables had been investigated previously by several scholars.

3.3 Foreignness

Foreignness is generally understood to mean the dissimilarity or lack of agreement in action contexts between two different environments (Kindleberger, 1969; Hymer, 1976). In organizational settings, foreignness has been recognized by major factors, such as local country experience, and institutional distance (Mitchell et al., 1992). Organizations are run by people and it is the relationships between these people and entities that contribute to the smooth running of the organizations. In an organisational setting, Hymer (1976) defines foreignness as the dissimilarity (or lack of fit) in operating situations of IAA and its environments (Hymer, 1976). Because relational dynamics differ from culture to culture, it can be expected that in different nations, cultural factors such as traditional customs will have a strong impact on the business community inside the organisation. These relationships are what build up social capital, suggesting that social capital can be developed differently in different cultures. This study depicts foreignness through social

capital and its impact on compliance with the standards. Furthermore, scholars in international business have long hypothesised that multinational enterprises (MNEs) doing business overseas face costs (Kindleberger, 1969; Hymer, 1976) that stem from the foreignness of the environment, from cultural, political, and economic differences, and from the need for management across geographic distance, among other issues. This liability of foreignness has been the essential assumption driving theories of the multinational enterprise (Buckley & Casson, 1976; Hennart, 1982; Caves, 1996; Dunning, 1999). Further, it has been claimed that to overcome the liability of foreignness and compete effectively against local businesses, MNEs need to provide their foreign subsidiaries with some firm-specific features, often in the form of organizational or managerial competences (Buckley & Casson, 1976; Hennart, 1982; Caves, 1996; Dunning, 1999).

To know the exact meaning of the liability of foreignness, we have to understand what makes an entity foreign rather than local in a particular country. Foreignness could be defined based on various factors such as the nationality of the major owner, the number of shares held by foreigners and the location of the organisation's international headquarters (Zaheer & Mosakowski, 1997). Moreover, the idea that foreignness may be a liability comes from the work of Hymer (1976) who suggested that organisations setting up processes overseas face particular unavoidable costs. These costs arise from a number of sources, for instance, local culture and other features of the local market, a weakness of the information network or political impact in the host country. With regard to the financial industry, local trading rooms may have better connections to the local central bank and to other policy makers who affect the exchange rates of the local currency. For instance,

German banks in Germany might have a better sense of whether the Bundesbank is going to lower deutsche mark interest rates, than might British banks located in Germany (Zaheer, 1995).

3.4 Culture

A review of many cultural studies reveals that there is no one accepted global definition of culture. Several scholars have tried to define culture but found it difficult to adopt one definition. For example, Von Bertalanffy (1969), and Kroeber and Kluckhohn (1952) stated about 160 definitions of culture, categorised into several general titles. Storti (2011) expanded the study of Kroeber and Kluckhohn in 1952 to over 300 cultural definitions, and still new definitions are added every year. Williams (2013) stated that it is not difficult to select a proper definition of culture; however, this way might be not the ultimate approach. Conversely, considering all definitions is hard to adopt a suitable definition of culture which is appropriate to the research field and domain. Culture has been defined in various ways. For examples, culture impacts individuals' behaviours and values as a part of the social society. This effect, via procedures and performance, influences how people make decisions and how humans see the world. Culture is not something inherited, but something observed through values, behaviours, beliefs, and upbringing (Ehrlich, 2000). However, culture creates borders and limitations between entities and individuals when interacting with each other (Melucci, 1996). Culture is explained as the glue that links member of a group to each other. Forms, shapes, and well organised schemes, shape individual communities in their individuals and social structure design (Mooij, 2004).

A popular definition of culture is "the collective programming of the mind" (Hofstede, 1984:82) which differentiates individuals from others. The word culture represents societies, countries in general, while subculture refers to a certain level, such as organisation, family or friends. Despite the fact the level of complained culture is different among societies, most subcultures within one society share the same values (Hofstede, 1984). Anthropology has a long history of cultural research. O'Neil (2006) reported that the first definition of culture in regard to human behaviour was in 1871, when the English anthropologist, Edward B. Taylor, defined culture in a broad ethnographic sense that included many factors, such as values, traditions, rules, ethics, knowledge, and any other ability and behaviour obtained by individuals as a part of society (Tylor, 1871). Furthermore, Henrie (2005) pointed out that the research on human culture behaviour originated in anthropology and is based on traditions, beliefs and public philosophy. Culture is a social construct and is based on a complicated array of social interaction relationships. This complication is a result of several factors, for instance policy, law, management decisions, traditions, and social communications.

Culture is not easy to measure and has to be measured by indirect variables or observation. Although it is difficult to measure a nation's culture directly, it is probably measurable in many indirect ways. This might be possible through interactions and communications, such as social, organisational, and team structure. There are many varied points of view on this construct. One of these views concern how clear culture is to the observer. In another words, is culture observable, tangible, and visible or it is invisible and difficult to demonstrate (Schein, 2004). Another complication of culture is that individuals perform several tasks and actions in a certain manner without thinking about the reason behind them

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and the ideal way of doing them. Brannen (2004) pointed out a real example of the transfer of business between two different cultures, where the business was run successfully in one place and failed in another due to a different cultural environment. An example of a successful transferred business was in Tokyo by Disneyland. The local people in Japan below the age of fifty years old tended to watch the Mickey Mouse Club on television as children and Mickey Mouse is seen everywhere in Japan and is not just for children. There are Mickey Mouse sheets for double futons, Mickey Mouse bean cakes, and even Mickey or Minnie Mouse masks for sale at religious celebrations. Disneyland was a model of many positive conceptual semantic shifts in understanding among people in Japanese culture. What the people in Japan liked about Mickey and Minnie is that they are adorable (kawaii), and cuteness is an extremely valued attribute in Japan (Brannen, 1992). Cuteness is connected with early days and evokes a certain nostalgia for a period when life was unsophisticated, secure, and trustworthy. Hence, in one of his many Japanese recontextualizations, Mickey Mouse, far from being a symbol of reliability as in the United States but having on image of reliability in Japan, is utilized to trade money market accounts in Japan. In contrast, the Mickey Mouse Club characteristically has not played such a major function in the experience of the French. For many children in France, experience with Mickey comes from reading Le Journal Mickey a detective-style comic volume in which Mickey looks rather less elegant than he does in the United States. The second version of Mickey, squeaky-clean, was seen as uninteresting in France. In other words, there was an unavailable semantic adopt at a conceptual level; as a result, Mickey has had a bad experiences and unwanted characteristics in Disneyland in France.

Culture is a way of thinking that is transferred from parents to children, educators to schoolchildren, between friends, and among managers and their subordinates. Culture also means to individuals many aspects of their daily life, such as how they interact with the world, their beliefs, what they consider good and bad, attractive, or boring. Furthermore, successful top management decisions in organisations in some cases are limited and conditioned by cultural factors, because it is not practical to manage employees without careful understanding of their own customs, values, and beliefs (Hofstede, 1984). Culture is one the main factors in the framework of how social scheme change and this change occurs because of two important reasons, First the rules and customs in society, and second the way people communicate inside a particular group (Harrison & McKinnon, 1986).

In regard to organisational culture, it comprises silent rules, personal values, everyday practices, and views that shape attitudes and types of communications among staff at various organisational levels (Sadler, 1988). An understanding of the correlation between culture and other restraining effects, for example, government rules and procedures, is not well developed and needs further development. Culture is a social concept describing the actions and behaviours of a certain group. Modern cultural theory represents culture as a final product of social consistency via the procedure of self-perception and self-similarity by the whole society.

Others represent culture as various levels of segmentation. Individuals are part of these segments and represents many layers. Layers are the interactions between organisations and structures in a particular environment. One of these layers is known as "Micro culture", (Wilhelms et al., 2009:98) which represents the smallest level of segmentation, which is impacted by personal and familial values and beliefs. This segment is used a lot in

organisational culture research (De La Rosa et al., 2000; Dilworth-Anderson & Gibson, 2002). Another segment is the national framework or "Macro culture" (Wilhelms et al., 2009:99) which refers to culture within geographic boarder (Hofstede, 1984; Schwartz & Ros, 1995). In addition to this layer, there is culture in professional and business commerce, known as "Meso culture" (Wilhelms et al., 2009:100), which exists between the Macro culture and Micro culture (Trompenaars & Hampden-Turner, 2011). This type of culture is also recognised among researchers in the economic field (Ronen & Shenkar, 1985). Furthermore, the rapid development in societies has led researchers to expand their view of the culture concept to a larger segment referred to as "Global culture" (Wilhelms et al., 2009:101). With the use of the Global culture concept, a new cultural construct emerged between the Macro culture and Global culture, which is recognised as a multinational culture (Featherstone, 1991), or as other scholars term it, cross-cultural patterns or "Meta culture" (Wilhelms et al., 2009:102).

Figure 3 All level of segmentation

Micro culture
(individuals)

Meso culture
(national)

Macro culture
(global)

(Source: Author)

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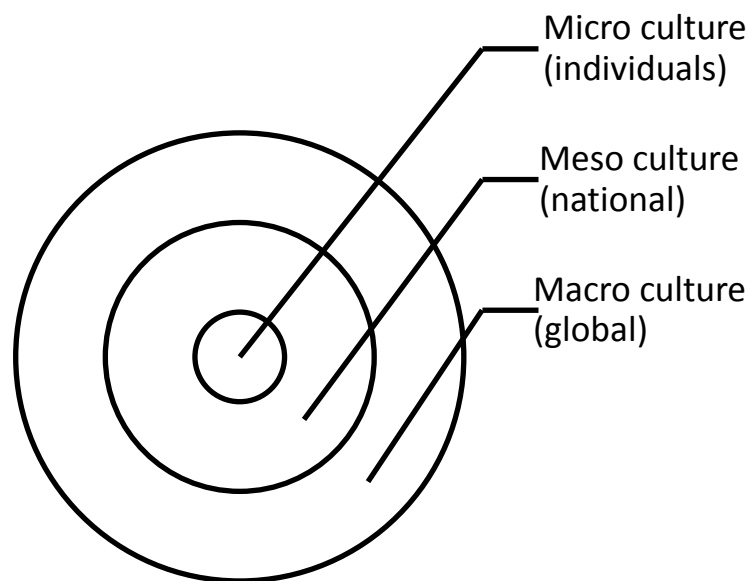
An example of meta culture might be an organisation that combines two different cultures. However, it is vital to note that this classification is not fixed and final. Entities can move and grow between these layers based on companies' operations in their industry and also based on the evolution of the business and industry (Wilhelms et al., 2009). In terms of how culture affects accounting, comparative accounting studies have considered the importance of external factors on the development of the accounting profession, and international agreements, and added that it could have critical effect on international harmonization and the enhancement of a combined economy. A combined economy is a mixed economy, which refers to an economy that lie between capitalism and collectivism (Ikeda, 2002). This kind of research draws the attention of policy-makers towards potential problems between different countries that could be faced as a result of external factors (Nobes, 1984). Frank (1979) claimed that if environmental factors play a critical role in developing accounting concepts and practices, and as such factors differ between nations, then it would be anticipated that the accounting concepts and practices in use in different countries would also differ as well. However, there was no serious concern about the impact of cultural factors on accounting and international classification literature before (Gray, 1988). Harrison and McKinnon (1986) and McKinnon (1986) suggested a particular framework including culture for analysing financial reports at a certain level. Use of the framework helped the Japanese to demonstrate the influence of cultural factors in their scheme. Understanding the impact of cultural factors on social system change is critical for two main reasons; first, the rules and values inside the system; second, the attitudes of individuals and their interactions with the system inside the organisation (Harrison & McKinnon, 1986).

Hofstede (1984) pointed out that one of the most important factors in cultural structure is human behaviour inside the business environment. Hofstede's IBM survey resulted in a well-known framework of cultural dimensions that explained the values of staff in various organisations, located in different countries around the globe. Four dimensions were originally proposed, known as Power Distance, Uncertainty Avoidance, Individualism, and Masculinity. These dimensions are shaped by geographical and historical factors. Power distance refers to the classes in society or in entities. In a high power distance culture, people maintain status and power differences between the higher or lower classes in society or in organisations (Ženko, 1999). For example, managers in France keep themselves away from the staff, avoid having social interaction with the employees and are not likely to discuss work duties with them. In terms of Individualism and collectivism, in individualistic cultures, people are concerned with their individual needs and goals. However, in a society with a collectivistic culture, the interaction among team members is high and there is no more emphasis on personal or family identity (Brislin, 1993).

In an individualist environment, nepotism is unacceptable in most cases and sometimes even hiring two employees from the same family in one department is considered inappropriate. However, in a collectivist society, it is difficult to isolate the impact of family on the work environment. Owners and managers understand that staff can help their family and relatives if need be, and it is unacceptable to ignore their favours. In particular cases, wages are paid to relatives for no work. In addition to this, if a certain position in the organisation is available, then the priority from an employee's point of view is their relatives and family members. Hiring employees who are in the same family is considered as acceptable and it counts as a type of loyalty to family. Furthermore, many organisations

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in collectivist cultures are family businesses, so owners prefer to hire their family members rather than outsiders, even if the non-family job candidate is more qualified than the family member candidate (Hofstede, 1984).

The dimension of masculinity-femininity is related to the degree to which values typically related with masculinity, such as dominance and aggressiveness, and femininity, for instance emotional openness, compassion and empathy, are favoured. In masculine cultures, people are more aggressive and have more focus on job performance than personal needs and feelings and they are less concerned about the quality of the professional environment. However, cultures with a high level of femininity are concerned with job satisfaction and the work environment (Hofstede et al., 1991).

Uncertainty avoidance concerns the degree to which a culture is comfortable with uncertainty and ambiguity. In a culture with high uncertainty avoidance governments and managers impose strict rules and regulations to avoid unpredictable situations and avoid taking risk. Stability and security are very crucial in such a culture.

The fifth dimension is long term versus short term orientation. A long term culture focus on the future and makes plans for the following years. However, people in a short term culture are more concerned about the present and sometimes the past as well.

The impact of culture has been demonstrated in regard to disclosure in financial accounting system in China. Financial disclosure issued by companies in China is secretive in nature and the development of their financial accounting system is controlled by the impact of

local cultural factors (Chow et al., 1995). Furthermore, the attitude of some senior managers in various companies in China has been found to be influenced by traditional customs and values (Ralston et al., 1999).

3.5   *Saudi Culture*

In terms of Saudi culture, Rice (2004) claimed that there are two perspectives that impact the business culture in Saudi Arabia, religion and the Bedouin tradition. The Bedouin tribal heritage refers to values such as loyalty to family. Rice claims that loyalty to family, then the clan, and then the tribe is essential and most powerful in the Saudi society. As a result of this, he found that job security and development is basically based on family loyalty and friendship rather than technical ability or management performance. Furthermore, studies in Saudi Arabia have found that terminations of low performance employees are very rare, because the desire for relationships results in life employment (Idris, 2007). Assad (2002) pointed out that in Saudi Arabia, cultural values, social structure, and relationship patterns, such as personal relationship, friendship, loyalty to family are highly respected by the local people. Bjerke and Al-Meer (1993) claimed that Saudi managers are in a society that considers loyalty to family and friendship as important and influential factors in the workplace environment. It is common for Saudi managers to depend on these relations for getting their needs done in their organisation. Therefore, formal planning strategies and policies might become facades and shells in front of these clusters of relatives, which will affect the efficiency and sufficiency of corporate performance.

Traditionally, the Saudi society has been considered as valuing behaviour displaying kindness, unselfishness, and generosity; and a keenness to support other family members and accept accountability for their mistakes as well and a respect of the culture in Saudi Arabia is imperative to business relations (Cassell & Blake, 2012). Chief Executive Officers and managers in Saudi Arabia face a great many challenges when they want to address improvement of employees' performance inside their companies. The biggest challenges of all are cultural values and work norms that restrict employee performance level compared with employees in developed countries. However, supervisors in many institutions in Arab countries do not give clear performance feedback to their staff members because they might harm the self-confidence of the staff members. In Saudi Arabia, giving an honest review of an employee might be treated as unfriendly and hostile. Moreover, in Arab culture, it is common to give honest feedback through a mediator, to avoid any misunderstanding. (Gopalakrishnan, 2002). Curry and Kadasah (2002) claime that in order to achieve improvement in companies' programmes there is a need to change some aspects of culture.

Cultural features of Saudi Arabia are affected by personal relationships, religion, and a hierarchical social structure. This structure is based on the tribal scheme which determines power and has an impact on government procedures (Faksh, 1983). Favouritism, for example, looking for favourable decisions through one of the executive's favoured persons, is customary. This favouritism restricts professionalism in many organizations (Kwong & Levitt, 2009). The significance of culture in the behaviour and ethical values of people and entities is well known (Haniffa & Cooke, 2002) The perception of culture is wide, since it refers to social, political and other aspects which impact people's behaviour (Hamid et al., 1993). Bethea (1992) claimed that internal auditors have to acquire a high level of

interpersonal skills because sometimes their function creates negative perceptions. This kind of characteristic is important, especially in a diverse business market like Saudi Arabia, where the level of education and cultural values can be different between the internal auditors and auditees (Woodworth & Said, 1996).

Connections are recognized as an important factor in business success in various cultures. For example, in Arab countries, the term *Wasta* refers to a kind of personal networking. This term can be utilized as an adjective for a person who is closely connected to decision makers and offers mediation and also it can be used as a noun when referring to the power of personal connection to have something done. Non-Arab workers who live in Arab countries find it difficult to deal with the concept of Wasta appropriately and perform poorly when building connections in the work environment. The ways of dealing with business in Gulf countries are not the same as in Western countries (Neal et al., 2005). A successful business in non-Arab countries may not necessarily succeed in Arab countries because managers in Arab countries do not have the same personality traits (Aljbour, 2011).

Throughout the Arab countries, social connections are a vital influence on prospects of decision-making and therefore play a critical role in defining career progression. Understanding the mechanism of Wasta is valuable because Wasta has a major impact on social, friendship and family connections that carry over into the organizational and business environment. However, employees in many Middle Eastern companies understand that in order to live in an enriched environment of business they have to rely on qualified and skilled workers (Adely, 2009) Therefore, in the global market, human resource

managers are addressing their structural and cultural perspectives to eliminate the effect of Wasta. The company location plays an important role in international organizations. International executives should pay attention to social connections in order to face cultural challenges more effectively and successfully (Tlaiss & Kauser, 2011). In Arab nations, social networks based on family connections are a major power in all prospects of decision-making and therefore play a critical role in the career progress of employees (Macintyre & Cunningham-Burley, 1993). Hutchings and Weir (2006) claimed that Wasta includes social connections of interpersonal networks that depend on kinship and family links. Thus, people with significant occupational roles inside organizations utilize Wasta connections in order to achieve their objectives (Macintyre & Cunningham-Burley, 1993). Wasta can be interpreted as a combination of internal and external connections as Western literature defines it (Michael & Yukl, 1993). In many developing countries, networks with people in high social positions make success more likely, regardless of employees' experience or qualifications. Many scholars have claimed that one of the most important factors that impact individual actions and behaviour is domestic culture. This influence can happen through supplying cultural values which can shape the relationships and patterns of engagement between employees (Triandis, 1989; Earley, 1993; Hodgetts & Luthans, 1997).

3.6   Social Capital (SC)

As a result of the increasing values of research in a variety of disciplines in social science, social capital has become a common concept. Social capital is like goodwill that emerges through individuals' connections. This concept can help researchers to interpret various studies in social science, for example youth behaviour problems, teaching and schooling, social life, and common problems in team work (Adler & Kwon, 2002). Many scholars in

social science have pointed out several definitions of social capital and generally these definitions are similar but also they have expressed various differences. Adler and Kwon (2002) divided definitions of social capital into three categories. The first type foregrounds external relations and is known as "bridging" (Adler & Kwon, 2002:19), this form of social capital is seen as a main resource that inheres in individuals' connections and actions with other actors in different organisations. According to this point of view, social capital can help to interpret the success of individuals in different organisations in a competitive environment. The actions performed by individuals or group of people can be significantly simplified through their direct or indirect relations to other individuals in another networks. This category has been employed by many researchers in sociology, especially in network theories (Burt, 1992). An example of this category is a definition of social capital as the procedures created by social actors and activated through interactions with individuals inside organisations to obtain and get access into other individual resources with the same entity (Knoke, 1999). Social capital is also defined from this point of view as the capability of actors to take advantage of social connections and networks by being a part of and having membership in these social units (Portes, 1998).

A second type of social capital is more about internal relations within collectivities, and is known as "bonding" (Adler & Kwon, 2002:22). This category focuses on internal ties inside entities, society, a nation, and so forth. Therefore, considers individuals' internal relationships rather than external relations and especially, the characteristics of collectivity that help to achieve collective objectives. For instance, social capital is the net of relations between residents that help to resolve collective action difficulties (Berman, 1997; Rahn et al., 1999). Furthermore, social capital is not defined by one feature, but is a combination of

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several characteristics. These characteristics include many dimensions in social capital structure and facilitate particular actions for individuals within the structure (Coleman, 1990). Another scholar defined social capital as the ability of a group of people to work together to achieve the same objectives inside organisations (Fukuyama, 1995). Also, social capital is known as the informal rules, values, and customs shared by individuals that coordinate the relations among them to obtain mutual benefits (Putnam, 1995; Fukuyama, 1997). Trust and tolerance are among such values inside these associations (Inglehart, 1997).

The third category of definitions is independence and does not have an external or internal dimension. Such definitions have many benefits. First of all, the range between the internal and external points of view is very large. Thus, the third category of definitions is a combination of internal and external dimensions. For example, the relationship between staff and colleagues inside an organisation is external to the employees; however, this relation is internal to an entity. Furthermore, the relationship between staff and colleagues inside an organisation is external to the employees; however, this relation is internal to an entity. In addition to this, a collective actor such as an entity is impacted by both external and internal social capital. An example of these independent definitions is, the net of social connections that impacts an employees' behaviour and as a result influences the rate of rapid economic growth (Pennar & Mueller, 1997). In addition to this, Schiff (1992) claimed that social capital is a set of features of the social structure that influence the relations between individuals, which impact the productivity and utility functions. However, this study adopts the internal point of view. The reason why this study adopts the internal point of view is because the internal dimension focuses on individuals, which this matches the

study focus, as it is concerned with perceptions of internal auditors in the same entities and not between different organisations. Social capital is a slippery but important concept: slippery because the definition of social capital is not well defined, and important because it represents the main fabric of domestic society. The roots of social capital lie in many intangible values. Putnam et al. (1994) claimed that social capital in organisations has many characteristics such as networks, ethics, and trust, which can enhance the coordination inside society and achieve shared objectives. The term social capital (SC) is attracting a high level of interest from organisational scholars, because it is probably a key to success in several fields in organisations (Adler & Kwon, 2002). Social capital is the total balance of the real and prospective resource that emerge from relationship networks (Nahapiet & Ghoshal, 1998). The most common assumption about social capital as its positive impact on innovation, which comes from informal relationships and social activities. Communications give rise to exchange of resources, which results in productive innovations (Tsai & Ghoshal, 1998). Many scholars worldwide agreed that social capital is a valued asset in organisations and its value is derived from the access to resources that it provides via social networks and connections (Granovetter, 1992).

Adler and Kwon (2002) have categorised social capital into two different dimensions, internal and external in regard to intrafirm and interfirm relationships. The difference between them is that internal social capital refers to the links between staff or units inside the organisations, whereas external social capital refers to the links between companies or institutions. However, many scholars claimed that social capital does not always enhance organisations and employees' performance. Ford and McLaughlin (1986) point out that there are disadvantages of having a strong family connection (as an example of social capital) inside the organisation. For example, nepotism is an example of a family

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connection, which can have adverse effects in many areas. Firstly, this kind of relative relation can have negative effect on staff morale. Secondly, the objectives of these family clusters may have a conflict of interest with business goals and decisions. Thirdly, some employees may obtain good facilities, authorisations or even move to upper levels regardless of their actual performance, or based on kinship. Likewise, Ichniowski (1988) pointed out that nepotism as an example of family connection may result in fights among relatives inside organisations. Furthermore, this type of connections disadvantages hardworking and talented employees who are overlooked for those who have the same family name as the decision makers. Therefore, workers may become disloyal, uncommitted, less interested, and lose cooperation with their co-workers and affiliation to their institutions. Therefore, ambitious professional employees may become disappointed in joining such organisation and many of these employees may resign from their positions and move to other organisations. These challenges plague many entities in less developed countries and increase the staff overall turnover and may cause inability to achieve organisational objectives, goals, strategies, and governance.

All in all, many researchers have described the positive impacts of social capital, such as harmony cooperation and positive effective communications (Hansen, 1999). However, this study examines social capital as one of the environmental and external factors that impact compliance with the International Standards for the Professional Practice of Internal Auditing.

3.7   *Relational Social Capital (RSC)*

The concept of social capital is basically utilised to explain the relational resources, rooted in cross-cutting individuals connections, which are valuable for individuals' development

inside a social organisational community (Jacobs, 1961; Loury, 1977). Adler and Kwon (2002) defined social capital as the relationships between persons and entities that would enable the processes in the business environment to be run more smoothly. The structural dimension of social capital, therefore, has to do with the effectiveness of the networks within organizations to facilitate effective and timely exchange of valuable information. The nature and quality of these networks determine the social capital that is built in that organization. In some nations, culture such as traditional customs have a strong impact on the business community inside the organisation and therefore can greatly affect the make-up and function of these networks. While social capital has become a significant concept in current management studies, relationships, or relational capital, have been vital in the culture, business dealings and academic writings in Asian nations for several centuries (Wee & Lan, 1998). Thus, most conceptions of social capital contain relations or networks of relationships among people and organizations, which facilitate action and thereby generate value (Seibert et al., 2001; Adler & Kwon, 2002). Therefore, relationships are the most vital aspect of social capital. For example, the concept of Inmak in Korea literally denotes individuals' connections. Inmak consists of whom and how many people one knows and relates to family, educational and/or regional ties. All three connections are vital and form the foundation for doing business in Korea (Hitt et al., 2002). Burt (2005), similarly defined social capital as benefits that accrue from a person's location in a set of interlinked relationships. Nahapiet and Ghoshal (1998) recognize three dimensions of social capital for analytical purposes: cognitive (codes and language), structural (network ties, network configuration) and relational (norms and obligations).

In the light of the above, this study will divide social capital into two main dimensions. The first dimension is *Relational Social Capital* (RSC). Within this dimension the study will focus on three aspects, Family Social Capital, *Friendship Social Capital* and Personal Social Capital. The second main dimension of social capital is *Linguistic Social Capital* (LSC) and the study will consider under this dimension *Understanding* and *Translation* concepts. The following section will discuss these concepts in more details.

3.7.1 Personal Social Capital (PRSC)

Favouritism is a social phenomenon that occurs in every society (Sadozai et al., 2012). Favouritism can be defined as a favour to someone or a particular group of people among others, because the management prefers that individual or group (Kwon, 2005). This phenomenon may occur in firms because employees and managers are not chosen based on knowledge, experience, skills, and qualification, and this unfair treatment exists more in less developed countries. As a consequence, skilled workers and qualified people do not attain suitable positions in organisations, and as a result of this, their motivation and performance are low compared with favoured employees (Özler & Buyukarslan, 2011). The term social capital was originally used to describe relational resources, embedded in cross-cutting individual ties that are valuable for the development of people in community social institutions (Coleman, 1988). Individuals can use their personal contacts to get jobs, to get information, or to access particular resources. The relational aspect of social capital, refers to assets that are rooted in these relationships (Uzzi, 1996). Social capital's influence on performance has been considered at multiple levels, ranging from the individual and small groups (Burt, 1992; Brass & Burkhardt, 1993; Podolny & Baron, 1997) to large businesses (Walker et al., 1997; Tsai & Ghoshal, 1998; Hansen, 1999; Rowley et al., 2000).

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Nahapiet and Ghoshal define relational embeddedness as the 'personal relationships people have developed with each other through a history of interactions' (Nahapiet & Ghoshal, 1998:244). Guanxi in China has become a common topic in both the academic and popular media. Guanxi refers to contacts, often individual, that operate through the exchange of favours. These interpersonal relationships often form a massive relational network that is pervasive in all business in China (Luo, 2000). Clash and conflict in relationships are one of the important factors that cause tensions in individual communications, which are unrelated to the real work being performed and have negative impacts on the individual level and on the organisational environment (Jehn & Bendersky, 2003).

Another aspect of social capital in the personal dimension is reciprocity. This concept is not the ultimate, legal, and formal approach in a business environment, but it is a mixture of altruism in the short term and self-interest in the long term (Taylor, 1982). Self-interest is defined as a service that is provided by individuals to others, or actions for the benefit of other individuals at a personal cost, but in the general anticipation that this favour will be refund in the future at an unknown time, when it is needed. Therefore, in societies where reciprocity is at a high level, individuals pay attention to each other's interests. In psychological terms, this is a kind of prosocial behaviour (Reno et al., 1993). Individuals maintain with each other via lateral associations. These kinds of associations in most cases are optional.

Social capital cannot be created in isolation. It should be generated through individuals' interactions or group networks and there are positive and negative impacts associated with these interactions (Fukuyama, 1995). Putnam (1995) and Coleman (1988) pointed out that in a community where the social capital is high, and the level of trust is high as well, the

incidence of crime is less, whereas, in a community where the social capital is low, the number of crimes is high and there is a need for formal policing (Fukuyama, 1995). Furthermore, favouritism means to favour somebody more than others based on personal preferences. These kind of preferences occur in societies when the level of the family relationship is high, and this type of practice occurres in less developed countries (Özler et al., 2007). Furthermore, individuals who have the same positions or status practice favouritism in their organisations (Jussim et al., 1998). This may be due to less organisational integrity (Aydogan, 2012). One of the main reasons for opposing favouritism is that it is a type of corruption (Özler & Buyukarslan, 2011). This type of practice is considered as discriminating, which disturbs other employees' status negatively and influences job satisfaction among other staff (Keleş et al., 2011).

3.7.2 Friendship Social Capital (FRSC)

Cronyism originally comes from the word crony, which can be traced to the 1660s as a piece of the University of Cambridge slang (Khatri & Tsang, 2003). The origin of this word is a Greek. According to the Dictionary of Word Origins (1990) a crony is a "friend of long-standing" (Khatri & Tsang, 2003:290). In 1840, this term refer to the capability to create a friendship relationship. In 1952, it was used in political language to refere to employees that worked in government based on their friendship relationship rather than their qualifications and skills (Khatri & Tsang, 2003).

In 1989, a journalist on the New York Times described this practice as a cronyism and modified the meaning of the word in the Oxford English Dictionary. Subsequently, the original meaning of this term was last became a low sense of friendship with unfair

treatment and inappropriate preferential treatment or political corruption, and it is treated as a kind of firm politics (Khatri & Tsang, 2003). Thus, when friends (excluding family members) are given underserved positions, it is refered to as cronyism (Arasli & Tumer, 2008). Cronyism is a well-known phenomenon and it has two types namely, horizontal and vertical. The first type of cronyism occurs between peers, for example friends, co-workers, and classmates. This form has been seen as one of the main cause of the Asian financial crisis (Dale, 1999). While the first type of cronyism focus basically on the relationship between peers, the second type of cronyism depends on superior-subordinate relations within the firm (Khatri & Tsang, 2003).

Friendship is a relationship with unclear borders. The nature of friendship is subjective and this makes it difficult to define friendship from a behavioural perspective, despite the fact that friendship plays a significant role in interaction between individuals. To some, friendship might mean sharing good times in everyday life, whereas to others friendship might mean seeing a friend occasionally (Sapadin, 1988). Booth and Hess (1974) defined friendship as dyadic connections between individuals unrelated to one another, that happen on a voluntarily basis Wright (1969) pointed out that the main principle of friendship is voluntary interdependence. Individuals have friends when they have a good time together, share common interests and interaction with them voluntarily. In addition to this, the researcher stated that individuals count themselves as friends when they consider themselves as friends to others. Bell (1981) defined friendship as a durable, close, social and voluntary relationship. He represented friendship as relationships that have extensive and major impacts on individuals' lives.

Wong (1981) claimed that intimacy is the main feature of friendship, and described intimacy is an emotional feeling that individuals experience, characterized by involvement, recognition, communality, reciprocal understanding and safety. He emphasised that these features exist in different levels of friendship. Also he mentioned that, although intimacy is usually associated with friendship relationships, this does not mean that it cannot occur among friends. The definition of friendship is difficult because the word friend is utilised in many ways. For example, in informal conversations the word friend can apply to several levels, starting from treating someone in a friendly way to having a best or real and lifelong friend. However, in most social science research, researchers considered friendship as good relations between individuals (Sapadin, 1988).

In terms of organisational relationships, employees conduct many relations in their workplaces. These relations might be with managers, peers, subordinates, and friends (Fritz, 1997; Sias, 2004). Friendship in a workplace relationship is distinguished by voluntary ties and interactions, whereas other workplace relations involve rules and compulsory work-related exchange of resources (Ibarra, 1993; Boyd & Taylor, 1998; Mehra et al., 1998). An employee's friendships have an important role in the effectiveness of the workplace environment (Winstead et al., 1995; Sias & Cahill, 1998; Berman et al., 2002). These impacts can influence work effectiveness via two ways: first, manager-subordinate relationships (Boyd & Taylor, 1998) and second, being a part of the system of making decisions, utilising resources, and transferring information (Lincoln & Miller, 1979). These two elements of the workplace impact of friendship and are involved more with higher positions in organisations than lower levels (Markiewicz et al., 2000), because those in high positions in the entity have more power and authority than those in lower levels (McClelland & Boyatzis, 1982; Astley & Sachdeva, 1984). Therefore, it is important

for top management to understand the dimension of friendship in the workplace environment. When friends (excluding relatives) are given gratuitous favour in advancement/employment it is called cronyism (Arasli & Tumer, 2008). Preference relationship often occurs among close individuals and acquaintances, like its occurrence within bloodlines (Bellow, 2004).

Cronyism is a kind of favouritism. It favours friends and corporate associates (Johnson, 2012). In Western countries such as the United States and the UK, business trades have been largely established on the bases of independent transactions. However, in most Asian nations, they depend on relationships. For instance, when a decision-maker is looked upon as successful in Western cultures, s/he is often called wealthy. Conversely, a manager of similar achievement in China is referred to as well connected (Chen, 2001). Most conceptions of social capital contain relations or networks of relationships among people and organizations, which ease action and thereby create value. Therefore, relationships are the most important dimension of social capital (Hitt et al., 2002). Furnham (2005) claimed that individuals in many cases use informal systems to meet their goals where the formal system cannot fulfill it. Improving informal relationships with the people in right positions, who could be juniors, seniors, co-workers, and managers, can be means of obtaining power. This type of relationship in companies has more impact and power compared with the formal system (Jenks, 1990). The mechanism of such relationship between individuals in relation to cronyism seems to be orgainsied by interpersonal relations rather than contractual commitments. Such informal ties could override companies' policy and involve a power-seeking element.

3.7.3 Family Social Capital (FMSC)

Family members share common values and these enable them to work together and function as a unit. Similarly, shared values in organizations help ensure cohesion and goal congruency which facilitate implementation of company policy and strategies more smoothly. However, this is not the case in all business environments. For example, Rice (2004) said that loyalty to family, then the clan, and then the tribe is essential and most powerful in Arab societies. Also he found that job security and development are basically based on family loyalty and friendship, rather than technical ability or management performance. Therefore, one of the factors of *Relational Social Capital* is *Family Social Capital.*

The socio-cultural structure in the Arab world has its origin in tribal and kinship relations. These tribal and extended-family ties create the basic societies which form the individual and societal values, rules, and actions. These values and norms encourage nepotism in the Arab world, in order to fulfil the individual's accountabilities and obligations toward his or her family. Tribal structures need a solid commitment from all individuals to their tribes, which as a result permits and encourages nepotism if it concerns relatives (Abdalla et al., 1998). For this reason, employees are often hired based on family or individual considerations rather than on having the requisite skills or education (Assad, 2002). Finelli (2012) claimed that family members share similar values, and found in his study a loyalty among family members in business in various junior and senior management levels. Cunningham and Sarayrah (1993) pointed out that in the Arab world, the term Wasta is used to refer to social networks or connections. Moreover, Hutchings and Weir (2006) and Metcalfe (2006) claimed that understanding of the Wasta process in the Arab world is a

valuable objective, given that Wasta is a vital component of Middle Eastern culture and is reflected strongly in the impact of social and family connections, which carries over to the workplace.

All over the Arab region, social networks based on family networks are an important force in all aspects of decision-making and therefore play a critical role in the career development of individuals. Wasta is critical for understanding how decisions are made in this region, because it permeates the culture of all Arab nations and is a force in all important decisions (Whiteoak et al., 2006). Wasta depends on strong family connections protected through strong networking. Moreover, Wasta includes social networks of interpersonal connections based on family and kinship ties and involves the exercise of power and influence through social and political-business networks (Hutchings & Weir, 2006). Therefore, individuals with considerable wealth or with powerful occupational roles in either private or public organisations use Wasta connections extensively in order to get things done (Cunningham & Sarayrah, 1993). Favouritism means to favour someone over others on the basis of individual liking and disliking. Favouritism occurs everywhere, but it varies from culture to culture. Mostly it happens in those cultures where relationships among family members are solid. According to some studies, favouritism mostly exists in developing countries. Furthermore, when an individual is favoured on the basis of family, irrespective of capability, education, skills etc. it is termed nepotism (Gumustekin, 2007).

With regard to the set of international auditing standards issued by the International Auditing and Assurance Standards Board (IAASB), the examination of the internal control scheme is a required auditing procedure. The impact of the internal control scheme on the

auditing procedure is based on the management's capability to form, implement, and manage the internal control standards. Nevertheless, the phenomena of nepotism, favouritism and cronyism cause problems in the institutionalization of business and obstruct the business management's capability to manage this procedure well (Keleş et al., 2011).

In a collectivist society, it is difficult to isolate the impact of family on the work environment. Owners and Managers understand that staff can help their family and relatives if need be, and it is unacceptable to ignore their favours. In particular cases, wages are paid to relatives if needed. In addition to this, if a certain position in the organisation is available, then the priority from an employee's point of view is to look to hire their relatives and family members. Hiring employees who are from the same family is considered as acceptable behaviour and actions and it counts as a type of the loyalty to family. In addition to this, family connections are more likely to occur in big organisations rather than small ones (Archer & McLeay, 1991). Furthermore, from an owner perspective, many organisations in collectivist cultures are family businesses, since owners prefer to hire their family members in key positions rather than foreigners, even if the non-family job candidate is more qualified than the family member candidate (Hofstede, 1984).

Tlaiss and Kauser (2011:8) found in their study that more than 87 per cent of study respondents stated "who you know is more important" than what someone has learned and acquired in order to get a suitable position in the company. The authors also found that 93 per cent of the total respondents indicated that to have a nice job, it was necessary to find family members in high positions, while 92 per cent indicated that strong family

relationships outweigh other factors such as years of experience and qualifications. They also found that respondents pay more attention to family connections in recruitment than other factors, such as gender. Strong family relationships do not affect the careers of on individuals only, but also influence the company. From a governance perspective, Tlaiss and Kauser (2011) claimed that if organisations adopt discriminatory performance, for instance, strong family relationships, then the entities' procedures and the outcomes in the workplace will be inefficient. Also such unfair discriminatory attitudes would negatively influence the general image of the company in terms of joining the global trend by guaranteeing equality for all members of organisations. Thus, to deal with this issue, top management should overcome this kind of inequality and enhance competence inside their organisations. Therefore, organisations have to develop their governance structure and decision-making policy to achieve less discriminatory practices and enrich the workplace environment. Organisations can implement these improvements in several ways, such as changing work cultural values by motivating employees and linking career progresses to productivity and performance, establishing policies that help staff to move from middle management positions to upper level, and creating practices in organisation that ensures equality to career progress to everyone. The authors also pointed out that Arab managers are facing various social and cultural challenges in the workplace. One of these challenges is to build confidence for all employees and provide programmes, which includes positive role models, the right to have access to networks, exchange information and negotiate any issues that affect career development. However, if the department does not consider such challenges and discriminatory practices, this may result in reducing the level of trust between, public, managers, and management.

3.8 Language

Language is linked closely to culture. (Evans, 2004; Kocbek, 2008). Whorf developed a hypothesis on the connection between beliefs, culture, and language. This hypothesis which dates back to 1956, was extended later in 1965 by Sapir. The latter claimed "language is an active determinant of thought" (Belkaoui, 1978:98), and claimed that the perceptions and behaviour of humans are shaped by the language they speak (Sapir, 1965). He emphasised that speakers who speak different languages think differently, because there is no identical culture that has a different language, which influences the consciousness of individuals (Sapir, 1929). Furthermore, when people think differently as a result of different language, they assess external reality differently as well (Werner, 1997). Language and collaborative activity is fundamental to the sustaining of cooperative interaction between internal audit activity (IAA) and its stakeholders (Taylor & Giroux, 2004). The perspective of semiotics indicates that the study of language produces meaning in situated contexts, which include objects, behaviours, practices, images, symbols, etc. (Martin & Ringham, 1999). Previous research (Pfeffer, 1981; Eccles et al., 1992; Green, 2004) suggests that internal auditors play an active role in the diffusion process based upon what they say and how they say it.

3.8.1 Linguistic Social Capital (LSC)

Semiotics, which is the study of signs and symbols as elements of communicative behaviour, indicates that the study of language produces meaning in situated contexts, which include objects, behaviours, practices, images, symbols, etc. (Martin & Ringham, 1999). This means that language developed and used in one context may mean something totally different in another context. Thus this study can expect that auditing standards

developed in English may not have the exact intended meaning in a foreign environment. Many countries may recognize and use English as an official language and have no trouble in the basic comprehension of the standards, but meaning may not be completely and accurately conveyed in the nuances of the language that are unique to different cultural settings. As a result of this differentiation, the study assumes that language will play a critical role with regard to *Understanding* and consequently complying with the standards.

In cases of non-English speaking countries, the IIA has tried to solve this issue by translating the standards into the host country language. However, Mont (2012) claim that the approach of translating compliance materials from one language to another is not ideal as much meaning is lost in translation. He pointed out that when this is necessary, there is need for it to be done by a specialist who can understand the nuances of specialist terms because there are challenges behind a simple term translation. He also found that managers cannot translate a particular policy and tell the employees that this is the law and they must follow it, because in many countries this method does not work. Individuals will not fully adhere to the policy due to misunderstanding of specialist term. Therefore, *Understanding* will be considered as the main dimensions of the LSC.

3.8.2 Understandability

In regard to understanding language, readability is defined as the ease of understanding or suitability of the writing style (Klare, 2000). Furthermore, Hargis et al. (2004) defined readability as the way of reading words and sentences comfortably (as a characteristic of clarity). Therefore, readability is the ease of understanding the text in a comfortable manner and this involves several factors. These definitions focus on two factors, first the text and

the second the attributes of the reader, such as education, previous knowledge, motivation, and experience. The International Accounting Standards Board – IASB defined understandability as a qualitative characteristic of information in the accounting domain. Understandability refers to the actions that will be considered by financial users in their items reports, for instance, understanding the economic impact of an organisation's decision and the measurement of these influences on the financial reports.

Understandability allows people to understand the precise meaning of information, especially when the information is delivered in a well-organised way, categorically, and clearly (Fakhfakh, 2013). The first study that was conducted on the international auditing standards was by Zorio et al. (2011), and offered new views to researchers in the international auditing standards domain. The main aim of this research was to analyse whether the clarity of the International Auditing and Assurance Standards Board (IAASB) reached its objectives or not. The second objective was to explore several variables for International Standards on Auditing in regard to readability. The authors of this research utilised many indexes to analyse the readability of the international standards on auditing. Furthermore, they in tried to identify the readability of the standards' structure. Statistically, the authors used Analysis of Variance (ANOVA) and regression analysis. The findings showed that there was a lack of readability of international standards on auditing, based on all indexes applied in the study. However, the authors did not find any strong evidence of the low level of readability based on the structure of the international standards on auditing, nor did they find any explanatory variables for readability.

Pound (1981) examined the readability of audit reports in Australia. A random sample of 20 reports was selected from auditors in listed companies. The results showed that in order to have a high level of readability, auditors should have a suitable education at undergraduate level at universities. Lack of suitable calculation can be one of the obstacles that make the auditor's reports ambiguous and not understandable to users. In addition to this, despite the fact that many auditors had university qualifications, there were still weaknesses in use of professional terms, such as reserve and depreciation in their reports.

Zeghal et al. (2000) examined the readability of around 90 audit reports published in nine countries around the world: Australia, Canada, the USA, the UK, Germany, Belgium, France, Italy, and Japan. The authors divided the reports into two main categories: the Anglo-American model and the continental model. Readability was analysed at several levels: first, at country level, second, between countries, and third, between the two models. The Flesch formula and Gunning Fog Index were used for readability analysis. The researchers pointed out that there were some difficulties in read the report and financial statements by potential users and there was significant difference between the readability scores in the reports.

In regard to effective communications, from a linguistic prospective, there are two main dimensions; first, readability and second, understandability. Many scholars in linguistics literature claimed that there is no differences between readability and understandability approaches, because both of them measure the same attributes (Adelberg, 1983; Adelberg & Razek, 1984). However, others in more recent linguistics literature claime different that the two approaches are distinct and they measure different concepts (Smith & Taffler,

1992a; Jones & Shoemaker, 1994). Jones (1997) pointed out that the differences between the two approaches is, that readability measures the difficulty of a text, whereas understandability measures the reader's ability to obtain knowledge from a text, and is based not only on syntactical strength, but also on the background of the reader, previous knowledge and interests, and general ability in reading.

Readability can be measured easily in regard to content difficulty (via FOG, and Lix indices), and the length of the words and sentences. However, Smith and Taffler (2000) proposed that it is not reasonable to utilise such proxies for understandability. Basically, readability is passive and the main factor is the text, whereas, understandability is collaborative and the main factor is the reader. Many researchers agreed that there are limitations to the application of readability formulas in the accounting domain (Brennan et al., 2009). Courtis (1995) pointed out the importance of repetition of information in financial reports in regard to understandability. Nevertheless, despite the fact that there was a huge effort and various attempts to measure readability and understandability, there is no agreement yet on measuring understandably. Since the 1970s much accounting narrative research has been conducted. These studies can be divided into two main types; first, content analysis and second, syntactical studies (Jones & Shoemaker, 1994). Many researchers are still looking at searching the thematic design and structures in content research and syntactical studies in regard to readability and understandability. Early studies used different names for these terms, such as readable and understandable, instead of readability and understandability (Taylor, 1953; Klare, 1963).

Many scholars such as Smith and Taffler (1992a), Jones and Shoemaker (1994), and Clatworthy and Jones (2001) agreed that there are two essential approaches to measuring the complicity of a text: the first one is, syntactical complexity and the second one is the use of complicated psycholinguistic and socio-linguistic skills, for instance Cloze, Multidimensional Scaling, Association Analysis and Classification Analysis. The first approach is normally known as readability studies, whereas, the second approach is recognised as understandability research. The Cloze technique relies on missing words in texts; if the readers can read the whole passage, then they can easily fill in missing words. The mechanism of Cloze tests is that the each fifth or tenth word in a narrative is removed. The Cloze technique is a method of conception test which defines how the basic information in a particular passage is understood by the reader and this is used by researchers in the accounting field as a proxy for understandability (DeJong & Schellens, 1997).

Smith and Taffler (1992b) investigated accounting undergraduates and non-failure companies in their study. One of the findings showed that accountants and undergraduates in accounting had difficulty in understanding texts; around 56% for accountants and 83% for undergraduates. The second finding was the weakness of the relationship between the Cloze scores and text-based scores, for example the Flesch and Lix measure. Therefore, the authors pointed out that the Cloze technique measures understandability, whereas Flesch measures readability. Nevertheless, there is still a serious concern and doubt about whether the Cloze technique is suitable and truly measures understandability. The development of the Cloze technique dates back to 1953, when it was developed by Taylor as a psychological instrument to measure the effectiveness of communication (Taylor, 1953).

This approach is based on prediction by individuals of missing words in a text, regardless of contextual factors. Therefore, this procedure may not be an accurate and suitable technique to measure understandability, but may be a good technique to predict missing words (Jones, 1997). Also, the method may be suitable to measure redundancy in the text, which is still different from understandability. For example, it may be suitable for intelligence tests related to guessing missing words in passages, so there is a relationship between higher scores in the Cloze techniques and smart readers. Furthermore, Taylor (1953) claimed that using a systematic approach to delete words from particular passages does not reflect the exact meaning of understandability, but could be closer to readability.

Kintsch and Vipond (2014) also doubted the suitability of the Cloze techniques as a measurement of understandability and considered it more as an instrument of intrasentential redundancy. Redundancy is when writers use more words than needed to express something. Specifically, in intrasentential redundancy, the use of words and/or phrases in the same sentence that mean the same thing. In other words, redundancy in writing usually involves adding something in information that is totally unnecessary (Jones & Smith, 2014).

The main methodological issue of the Cloze technique is the accurate meaning of its scores (Jones & Smith, 2014). Abraham and Chapelle (1992) argue that it is not reasonable to use the Cloze procedure as a measurement of an educational objective without an accurate knowledge of what Cloze scores mean.

According to readability and understandability literature, there are methodological limitations on both concepts. Therefore, many researchers tried to find alternative approaches to measure the readability and understandability, such as the C-test, the Meaning Identification Technique (MIT), and the Sentence Verification Technique (SVT). All these techniques look new compared with Cloze score tests. The C-test background dates back to the early 1980s, as a test of language proficiency. This procedure was used essentially to teach pupils a first or second language, or could be utilised to teach adults a foreign language (Grotjahn, 2002). The procedure of the C-test is similar to the Cloze approach; the reader predicts unavailable information from the passage. The difference is that the words in this test is partly removed. Many scholars considered the C-test as a reasonable measure of language proficiency (Jafarpur, 1995; Connelly, 1997; Eckes & Grotjahn, 2006). Nevertheless, it is claimed that the face validity of C-test is not high and it seems to be a kind of word puzzle rather than a test of language ability (Abdoljavad, 1995). The Cloze technique does not perfectly measure the undestandability and this would be a useful opportunity for researchers in accounting to investigate alternative ways to measure undersatandabilty with different tests such as, MIT & SVT (Jones & Smith, 2014).

Another technique used as a measure of understability in the Meaning Identification Technique (MIT). The process of this test is to read many statements from Chief Executive Officers then answer without going back to the same passage. The test includes 12 items: 6 paraphrase items and another 6 paraphrase items but after some change. The participants should answer yes or no based on whether the item meaning matches the passage. Thus, the correct answer will be yes for paraphrased items and no for the changed items. The chance of correct prediction will be 50 per cent because, since there are two possible answers. A

further test used for the same purpose, is the Sentence Verification Technique (SVT). The difference between this technique and the previous one is that, in this test there are 4 types of test item. In addition to paraphrases that include items and changed meanings, there are original statements which are unchanged and distractor statements as well. A distractor statement is a sentence that is consistent with the passage, but not related to the meaning of the passage. Royer (2004) pointed out that the SVT approach is sensitive to passage difficulty and question complexity, which makes it unsuitable for testing understability.

All in all, comprehension tests such as the Cloze, C-test, MIT, and SVT are costly, need special skills to prepare, and are time-consuming (Jones & Smith, 2014). Moreover, the understanding of the exact meaning of words changes over time and depending on the specific context. According to accounting historians, words have to be understood in relation to their historical background and perspective (Mills, 1989). Dahlgren and Nilsson (2009) studied the Swedish translation of the International Financial Reporting Standards (IFRS) and the authors found several translation errors which were related to professional accounting terms, for example income, profit and recognition. Therefore, a problem arises when individuals confuse the meaning between everyday use and technical concepts. In addition to this, the authors pointed out that there is another factor that is associated with understanding the standards, which is the complexity of the language of the standards, on both connotative and denotative levels. Connotation is the use of words to mean something else, something that might be initially hidden. The connotations of a word are subject to cultural context and personal associations, for instance, the connotations of the word snake might include evil or hazard. However the denotation of a word is its standardized meaning

within the English language, in other words, denotation is the use of words to mean exactly what one says. (Dahlgren & Nilsson, 2009).

3.8.3 Translation

The main aim of translation is to find a particular form of equivalence between the original text and the translated text. In general and based on the previous literature, there are two main types of equivalence, formal and dynamic. Formal equivalence is related to strict word for word translation. The translator tries to keep the terms and structure as close as possible to the original text. This type of form needs more effort from the reader's side to fully understand the meaning of translation. Another form of translation is dynamic equivalence. This type is a different approach compared with the previous one. This kind of equivalence requires effort from the translator to make the translation clear, comfortable and understandable for the reader, which may not necessarily match the words from the original text (Scott, 2014). An example of one of these types is illustrated by Kettunen (2011); he mentioned the experience of the International Accounting Standards Board (IASB) when translating the International Financial Reporting Standards (IFRS). He claimed that the IASB used formal equivalence, which was not perfect in translating to the target language.

Scholars in the accounting field have tried to understand how translators of International Accounting Information and Standards deal with non-equivalence. Some of these researchers recognised several strategies regarding this issue. For instance, Archer and McLeay (1991) identified two kinds of coping strategies that are suitable for this purpose,

reduction and achievement strategies. Reduction strategies mainly refer to avoiding any challenges in translation; an example of this strategy is referencing the source instead of translating the original text. Also, if the translator finds it difficult to translate a particular phrase or word, that particular part may be deleted completely from the translation. Achievement strategies try to solve translation problems via alternative means. This type of strategy may add more explanation to the original text, which may not always be similar to the original terminology, so as to make the translated text more comprehensible to the reader. Another example of coping strategies is presented by Baskerville and Evans (2011) who claimed that the translation of IFRS might differ between different language groups. Slavic, Scandinavian and Romance. The finding of their study showed that Slavic translators used avoidance strategy during the translation. However, the Scandinavian and Romance linguistic preferred to use achievement strategies which is concerned with adding an explanation to make the text more clear even if the terms are not similar to the original translation. These results have critical implications for users in translation. Translators from the Slavic language group related to utilise avoidance strategies, which means that the users of the Slavic translation will hopefully spend more effort while they are reading the standards. They have to check the original text so as to understand the meaning. Scandinavian and Romantic language family IFRS translations involve adding words and phrases to explain the meaning of the original text and this requires less effort from the reader. Thus, the Slavic users of IFRS are closer to the original version than Scandinavian or Romantic language family readers.

Translators may face challenges that go beyond the equivalance of words and phrases, for example, the complexity of international standard language, lack of accounting knowledge

in translators, and differences between cultures (Baskerville & Evans, 2011; Kettunen, 2011). IASB tried to face these challenges by establishing a committee for the systematic translation process. The main aim of this committee is to review how the international standards should be interpreted into the targeted language, which is basically different from the original standard language. This should solve the challenges, overcome translators' lack of accounting knowledge and make sure that technical and professional accounting terms have been translated accurately.

Evans et al. (2015) claimed that accounting had spread widely and internationally. Therefore, translation is crucial in international accounting harmonization. It is important in multinational organisations, for annual financial reports especially in a language that is different than English. Nevertheless, translation of accounting terms and procedures is not straightforward. While scholars pay serious attention to translation in various disciplines, and numerous studies investigate solutions for challenges such as law and medicine, very few exists by comparison, in the field of accounting. Therefore, the authors conclude that there is a need to increase effort in research with regards to translation in accounting.

Abd-Elsalam and Weetman (2003) considered language translation matters with regard to accounting in Egypt. The authors focused on the international accounting standards with respect to cash flow. They found that there are likely to be on-going problems associated with translation of International Financial Reporting Standards (IFRS) from English to Arabic. Hellmann et al. (2010) pointed out some issues related to translation of IFRS from English to German. They claimed that there are several general problems in translation. Furthermore, they mentioned that accounting lexis creates ambiguity and the level of

vagueness varies with the type of accounting terms used. Accounting terms that use generic language seem to be more ambiguous, and create more difficulties in translation compared with lexis that is unique to accounting. Thus, the more accounting terms are worded in generic language, the more they depend on culture, and the more difficult are issues of translation. Local culture also plays a critical role in this regard.

In regard to communication and translation, scholars have divided countries into high context and low context cultures. Written communications in countries that have low context cultures are likely to be clearer (Hall, 1989). However, those in countries with high context cultures are likely to be more ambiguous, as the culture is a critical factor in the message (O'Hara-Devereaux & Johansen, 1909). Based on this classification, accountants in countries such as the United States and Germany, which have low context cultures have more variation, and this variation will extend especially to accounting language. Moreover, High Context (HC) and Low Context (LC) refer to different styles of communication. High context cultures uses indirect verbal expression and meaning embedded in nonverbal communication. However, Low Context (LC) countries highlight direct and explicit information exchange. In other words, High-context and low-context communication refers to how much speakers depend on things other than words to transmit meaning (Gudykunst & Nishida, 1986). Based on the suggestion in the linguistics literature that language has a critical influence on the way that we think, this issue would extend to the translation of accounting from one language and culture to another. This issue has become significant in the international accounting field and it has implications for various parties. Translation can affect stakeholders such as accountants, auditors, accounting institutions, government, and those who are interested in standardisation.

In addition, it is important because of the association between accounting and law. If international negotiators and local implementers incorrectly believe that individuals have the same understanding of accounting and professional terms, despite different language and culture, then there is a real issue of understanding. Low quality of translation may cause users to misunderstand some items in financial statements. Also, for scholars who are interested in international accounting, if they do not completely understand the exact meaning of international accounting professional terms, then their studies may be unreliable (Evans, 2004).

Crystal (1987) claimed that individuals prefer to distinguish between professional terms if they are in their local language. Nevertheless, exact correspondence of meaning of both international and local language is rare, which necessitates translation of many professional terms. This may lead to change of the original meaning. Studies of linguistics have increased in the accounting domain, for the purpose of accountability and decision making (Evans, 2004). Belkaoui (1990) pointed out that accounting is considered as a business language which contains words and grammatical items. These elements shape the attitude and perceptions of users. In addition to this, among all languages, English is the least standardised and its speakers have shown themselves opposed to standardisation locally, let alone globally (Parker, 2000). In addition to this, accounting principles cannot be easily separated from of their expression via local language. Belkaoui (1990) stated that language differs between nations, even if the accounting principles are not different. For instance, when international auditing standards are translated to another national language, the professional auditing terms change but not the grammar, so this calls into question wither this approach is ideal or not. Belkaoui (1990) considered the use

of language in accounting, not accounting as a business language. His complicated model as an international theory showed the relative influence of many factors, such as linguistic, cultural, organisational, and contractual. This model is useful because decision relay on cognition. This type of awareness relies on a system characterised by many internal and external factors (Evans, 2004). These factors are dependent on each other, and to isolate them is probably impossible.

Belkaoui and Picur (1991) used an experimental perception of concept to examine whether national culture defines a country's accounting principles and techniques. The authors tried to isolate the impact of local culture from organisational and linguistic relativism through English speaking subjects from well-known global accounting firms in various locations, Chicago, London, and Toronto. The researchers found that the separation of language from culture is not fully convincing, as the English language is spoken differently in these three locations.

Problems are raised when practices and professional terms in accounting are translated from their home language and culture for another foreign place. Nevertheless, it is undeniable that nowadays translation is needed in many disciplines, including accounting and law. Doupnik and Richter (2003) examined selected accounting professional terms and compared the interpretation of uncertainty in international auditing standards by certified public accountants whose mother tongue was American English with other auditors in various countries, Germany, Switzerland, and Austria whose first language was German. The findings showed differences in interpretation related to variations of language and culture

because of different nationality. The authors proposed that these differences were due to the quality of the translation process or because the two languages are not equivalent in linguistic terms.

Differences of values from cultural perspective cause differences of international auditing standards (Gray, 1988). However, such differences can also exist between accountants and auditors who share the same language and culture. These findings rouse an important question whether the International Accounting Standards can be implemented reliably in different cultures and languages (Doupnik & Richter, 2003). Catford (1965) claimed that it is difficult to link between languages and other cultures, because each language has its own customs which includes communications and relationships. Therefore, precise translation and accurate meaning are hard to achieve (Bassnett, 1998a). Many cultural perceptions are specific to a particular nation and it is rare to find it in other cultures, which can be found in organisations or individuals' attitudes. There is only one way to obtain a close meaning through the translation process, which is by explaining via words and sentences. Doing translations is hopelessly unpractical without making changes in the original text or in the passages translated into another language (Joseph, 1998). Solving a translation problem in accounting terminology, requires a trans-linguistic register (Archer & McLeay, 1991). Accounting trans-linguistic register means that accounting principles would have similar meaning globally, and are equivalent, so they can be transferred. Furthermore, the authors emphasise the significance of pragmatic appropriateness as well as with the importance of semantic equivalence. Based on translated audit reports, the

researchers pointed out that audit reports include different local registers which contain various characteristics that may contradict a trans-linguistic register.

As an illustration of translation differences David and Brierley (1985) argued that despite the fact that there is overlapping between functions in many laws, nevertheless, many legal concepts are not equivalent between English law and French, and vice versa. As a result, there is danger in using dictionaries (French-English or English-French) to explaining concepts in another language or culture (Evans, 2004). The main reason why translation is a very difficult task is because each language contains professional, technical terms, lexicon and its own style (Joseph, 1995; Smith, 1995). An example of unsuitable translation from German accounting terms to English, is "Grundsatze ordnungsmaßiger Buchfuhrung" (Norberg & Johansson, 2013:35) (GoB) which refers to principles of orderly accounting. In many cases GoB is translated in English as Generally Accepted Accounting Principles (GAAP). This translation may cause a problem when English speakers believe it to mean US GAAP.

Many German scholars used the term GAAP instead of GoB. Inaccurate translation (Macharzina, 1981) leads to misunderstanding of accounting principles in Germany (Haller, 2003). GoB in German accounting terminology is important in accounting and law and has some characteristic similar to the UK or US GAAP. Nevertheless, GoB is different, because it represents a different conceptual framework of rules than GAAP. David and Brierley (1985) pointed out that legal terminology in English cannot be translated easily and sufficiently into French or another foreign language. If a translation has to be made, at all cost the meaning in most cases does not reflect the

term precisely. "Prudence" and "Vorsicht" (David & Brierley, 1985:11) are another example of everyday language terms, especially in the professional register of the accounting culture. The meaning of prudence is undoubtedly known in accounting systems however, it does not give the exact meaning when translated into German. These differences might be due to differences in culture, customs, history, language, governmental law, and economic factors. In some nations, prudence is counted as of the utmost importance. For example, in continental European countries, accounting is more conservative compared to American countries. Also accounting in Germany is more conservative compared with accounting in the UK (Gray, 1980; Evans & Nobes, 1996).

Gyori (2000) claimed that different factors that exist in many environments, such as history, culture, and communications conducted in various languages will exert their influences on different languages. Furthermore, language differences force different classifications on the entire nation and not only on the local cultures but also in accounting and law principles and rules and professional registers. Having differences in accounting culturally may cause differences in understanding, which might lead to different understanding of relationships in accounting (Belkaoui & Picur, 1991).

Chesley (1986) searched for causes of the comparison of the uncertainty terms between organisations. These expressions are used in many cases such as accounting standards. The study investigated the effectiveness of Canadian accounting and auditing standards in regard to translation from English to French, which is the official language in some areas. The author observed that people do not share the same

meaning on different expressions of uncertainty. An explanation of this is that each company has its own disclosure, different from other entities. In addition to this, the author pointed out that professionals in accounting are not agreed on the same meaning of the expression uncertainty in English, so implementing the same standards or professional term in other language will probably expand the disagreement among accountants. The growing number of languages that use International Accounting Standards are likely to disagree on the meaning of the professional terms used. This dilemma is probably significant for professional accountants in European countries, especially after working to harmonize the accounting standards to be issued in one official language (Davidson & Chrisman, 1993). The author concluded that original expressions in English have not been transferred accurately in some sections of the Standards Committees of the Canadian Institute of Chartered Accountants (CICA) Handbook.

Furthermore, in Italy, the word "fatturato" (Archer & McLeay, 1991:5) refers to sales or turnover. However, when this word is translated into English in the income statement, it refers to "invoiced" (Archer & McLeay, 1991:5) sales instead. This kind of failure in translation may be due to the expressions that are used in different spoken languages in different countries (Archer & McLeay, 1991). Moreover, Walton (1993) claimed that many studies in translating accounting texts discussed translating professional accounting terms from the home language to host language. These studies discussed key concepts for instance, fair presentation and the true and fair view. Walton (1993) pointed out that these concepts refer to the British accounting established for political purposes while "no one knows what it means" (Walton,

1993:49) and these terms are not very useful in academic analysis. He illustrated that these symbols do not have independent meaning, and the meaning is based on the currently accepted accounting practice. Therefore, the meaning changes continuously and differs between various cultural clusters. When fair presentation and the true and fair view are translated to a different language, the translators in the host language do not use the exact terms of the component of the home language (Nobes, 1993; Aisbitt & Nobes, 2001; Kosmala-MacLullich, 2003). The translations of these terms do not reflect the meaning perfectly and equivalently to the original text and terms, which may reflect ambiguity to the original meaning (Aisbitt & Nobes, 2001). Moreover, scholars in the accounting field recognise that translation is like a roadblock and have encouraged researchers to do more investigation in this area. For instance, Nobes (2006) pointed out that there is a risk, if the translators miss the exact meaning of the original text and translate the text inaccurately. Furthermore, Zeff (2007) considered language as an important factor that could affect the interpretation of international accounting standards and give rise to problems with regards to accounting information comparability.

3.8.4 Language in Saudi Arabia

Arabic is the formal language of Saudi Arabia. However, English is thought of as a second language. At one time, little importance was given in teaching English in the Saudi education system. It was presented as a required topic from class seven, but the students made little effort to acquire mastery in English. Instead, they regarded it solely as a subject needed to pass examinations. As a consequence of the global trend, and because it is the language of 'science and technology, business and commerce' 'the window on the wall

word' the significance of English language grew rapidly. It is now considered one of the main subjects in the education system of Saudi Arabia. Thus, it is a compulsory subject from class six to college level. Recently, the Ministry of Education approved its introduction in class four, to achieve more fruitful result (ur Rahman & Alhaisoni, 2013). It is undeniable that the Kingdom of Saudi Arabia is making rapid process in the education domain, but the level of attainment in English as a second language is unsatisfactory. Alshumaimeri (2003) reported that teachers in schools complain that students leave the secondary stage with little ability to have even a short conversation in English. Furthermore, they pointed out that despite spending a long time in English lessons, students have learned few English words, which ultimately is a waste of time for both students and teachers. Fareh (2010) claimed that some of the obstacles of EFL programmes in the Arab countries are inappropriately trained teachers and unsuitable teaching methodology and activities focusing more on teachers rather than learners. School and college teachers always criticise the low level of proficiency on their students. In addition to this, they claimed that students are not interested in learning, there is a lack of emphasis on developing skills, unsuitable schoolbooks and teaching resources, and unfair assessment methods.

3.9   The Nature of the Problem

Cassell and Blake (2012) analysed the business and legal environment of Saudi Arabia utilizing Hofstede's five dimension model; power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance, and short-term orientation vs. long-term orientation. The aim of this paper was to supply a comparative analysis of a number of key behaviours of the culture in the United States and Saudi Arabia, inspect different

perspectives in Saudi Arabia's business context, and reveal the continued viability of Hofstede's model as a stepping-stone to the appreciation of culture. For example, studies in Saudi Arabia have found that terminations of low performance employees are very rare, because the desire for relationships results in life employment (Idris, 2007). However, the story is different in the United States. Traditionally, the Saudi society has been considered as valuing behaviour displaying kindness, unselfishness, and generosity; and a keenness to support other family members and accept accountability for their mistakes as well. Finally, this paper concluded that there were culture differences between the Kingdom of Saudi Arabia and the United States based on Hofstede's five dimensions model. Such cross-cultural differences pose various challenges to international leaders as a consequence of working in diverse cultural markets. It has been claimed in the literature that cross-cultural differences are critical of the success of international leaders and the greater the differences between the home culture and the host culture, the more challenging the situation is, and the more employee training is needed (Lobel, 1990).

The impact of national culture on workplace attitudes and performance is a matter of investigation by many scholars (Al-Otaibi, 1993; Al-Meer, 1995; Yousef, 2000). For example, the power of social networks is strong not only in Arab countries; but also in other Asian countries, such as China (Hutchings & Weir, 2006), Indonesia (Wright, 1994) and Malaysia (Mansor, 1994) where a high social position of families is expected to influence the career progress of both genders. For instance, Mansor (1994) claimed that the success of women in Malaysia is to a certain degree the result of family help and networks. This kind of social interaction, which gives preferential treatment to family and friends, also known as "blat" in Russia, and "guanxi" (Leung & Wong, 2001:55) in China, is

considered a type of corruption (Kaufmann et al., 2004). Furthermore, Ramamoorti (2003) pointed out that the global practice of internal auditing is subject to various cultural, legal and economic environments. In addition to this, he indicated that cultural, legal and economic differences impact the development of internal auditing systems in different countries. Thus, the first problem in compliance with standards arises from difference of culture between the home country that issued the standards (the United States) and the host country that would like to apply the standards.

The second issue that this study considers is language. The IIA issued the Standards in the home country language (English), which is different from the local languages in host countries. Murdock (2006) claimed that in order to have successful international audit, executives should have a suitable language level, including specialist audit terminology. In addition to this, the author pointed out that one of the basic skills that have to be considered when establishing an internal audit department in any organisation is language skills. Furthermore, he mentioned that staff fully understand a meeting when it is conducted in their local language. However, when they attend a meeting in a foreign language, they have to understand specialist terms clearly, which may be difficult, due to the complexity of terms and language differentiation. Mont (2012) said that it is not ideal to translate compliance materials from one language to a different language, and that it is nessary to find a specialist who can understand the nuances of specialist terms, because there are challenges behind a simple term translation. He said that managers cannot translate a particular policy and tell the employees that this is the law and they must follow it, because in many countries this method does not work. Individuals will not fully adhere to the policy due to misunderstanding of specialist terms. Moreover, he asserted the need for

organisations to be aware of traditional customs and culture when starting business or spreading compliance materials around the globe, and language as a part of culture is a significant factor when establishing compliance procedures. Consequently, if managers do not consider the culture component of which language is a part, then they will not achieve effective compliance materials.

Teichmann et al. (2006) pointed out that the International Electro-Technical Commission (IEC) standards. These were established and developed to be known and implemented, so they have to be suitable for practice. In order to understand international standards, many organisations try to translate these standards from a foreign language to their local language. Therefore, the quality of translation is crucial. The authors sent questionnaires to 63 national committees in different languages to get a feedback about translation of international standards, and only about half responded. The findings revealed that 71 per cent of them needed to correct their interpretation and understanding of IEC standards.

All in all, in regard to language, *Understanding* of professional terms in the Standards and *Translation* to the host local language are expected to play a critical role in compliance with the Standards in host countries such as Saudi Arabia.

3.10 Summary and Conclusion

The chapter started with the discussion and presentation of previous studies in internal audit and explained the reasons for the ineffectiveness of internal audit inside companies. It also presented why internal auditors are fully in compliance with the International Standards for the Professional Practice of Internal Auditing. The chapter

presented some definitions of foreignness, and culture and provided background in Saudi culture and discussed particular features about Saudi society and its cultural values. A description was presented of factors that hinder compliance with the International Standards for the Professional Practice of Internal Auditing. Some of these factors relate to cultural values and customs, such as the strong relationship between individuals (favouritism), family connections inside work environment (nepotism), and friendship, which refers to close relationship between friends (cronyism). The chapter also presented other factors that related to the linguistic perspective. One of these factors is understandability of professional auditing terms such as "*Add Value*" and "*Residual Risk*". Finally, the chapter identified the nature of the research problem. It can be concluded that several factors hinder compliance with the International Standards for the Professional Practice of Internal Auditing. These factors emerge from cultural differences, such as different languages between two countries and differences in cultural values and customs.

In summary, many scholars have claimed that there are internal factors that hinder internal audit departments from complying with the International Standards for the Professional Practice of Internal Auditing, for instance, organisational membership in the Institute of Internal Auditors, educational and professional certificates for internal auditors and the age of employees and organisation. However, this chapter explained that there are also several external and environmental factors that influence the compliance with the International Standards for the Professional Practice of Internal Auditing, such as social capital. Social capital as a part of culture that has advantages in some cases. However, the chapter illustrated that there are negative consequences associated with social capital on the implementation of professional standards, in relation to personal social capital, friendship

social capital, and family social capital. In addition to this, the chapter concludes that another important factor likely to influence compliance with the International Standards for the Professional Practice of Internal Auditing is the linguistic dimension, which is concerned with the *Understanding* and *Translation* of main constructs in the language dimension. After that, the chapter presented the situation of foreign language in the Kingdom of Saudi Arabia and concluded with the nature of the problem in this study.

4. CHAPTER FOUR: THEORETICAL FRAMEWORK AND HYPOTHESES

4.1 Introduction

This chapter presents the Throughput Model background and its components, Information (I), Perception (P), Judgment (J) and Decision (D), which are linked by six possible pathways. Furthermore, the chapter discusses the operationalization of the Throughput Model and the interaction of all the factors included in the study, such as demographic, independent and dependent variables. Moreover, this chapter presents the hypotheses, which will be divided into two main sections; *Linguistic Social Capital* and Relational Social Capital. The chapter will then discuss the independent variables, which include *Understanding* and *Translation* constructs in the linguistic dimension and *Relational Social Capital* as the second set of independent variables, which include, *Personal Social Capital, Family Social Capital*, and *Friendship Social Capital*. After explaining the independent variables, the study presents the dependent variables. The main dependent variable in this study is the International Standards for the Professional Practice of Internal Auditing. The structure of the Standards is divided into two types, the Attribute Standards (AS) and the Performance Standards (PS). The AS consider the attributes of entities and Individuals performing internal auditing, such as *Independence and Objectivity* AS 1100, *Individual Objectivity* AS 1120 whereas the PS refer to the nature of internal auditing and deliver quality standards against which the performance of these services can be assessed, such as *Governance* PS 2110. Furthermore, these standards include many professional terms that reflect special meaning, such as "*Add value*" and "*Residual risk*".

4.2 Throughput Model

The Throughput Model (Rodgers, 1992; 1999; Rodgers & Gago, 2001) is a general theoretical framework for understanding interacting processes that influence decision-making in organizations. The model is based on constructs of: perceptual processing (framing), judgmental processing (analysis of information/experiences), and decision choice, on the part of individuals and/or organizations. Its usefulness in conceptualizing a variety of issues important to organisations has been demonstrated (Rodgers & Housel, 1987; Foss & Rodgers, 2011). Of particular salience is its clarification of critical pathways influenced by decision making positions. The model defines decision making as a multi-phase, information-processing function, whereby outcomes are determined by cognitive and social processes.

In this model, perception and information are interdependent. On the one hand, information can influence the way a decision-maker frames a problem (perception) on the other hand, their framing can influence the selection of information to be applied to analysis of a problem. Generally, the reliability and reliance of information is associated creates coherence between information and perception. The information stored in memory influences decision-makers' analysis. Typically, before an individual forms a judgment, he or she encodes the information and develops a view of the problem. Finally, perception and judgment influences decision choice. These processes can be represented systematically. To understand these processes, the paths are divided into distinct pathways, whose components can then be independently analysed, in order to revel their role in individuals' decision processes (Rodgers & Epstein, 1997). The model also takes account of individual differences in moral philosophical values. Even if two decision-makers share the same

ethical principles, they will probably react differently to the importance of each principle. Such differences will be reflected upon.

4.3 Components of the Throughput Model

Four components make up the throughput model, Information (I), Perception (P), Judgment (J) and Decision (D) as illustrated in Figure 1. Information refers to the facts or details pertaining to the issues that are being examined. Perception has to do with the decision maker's potential biases, prior experiences and other factors that can affect how the information is processed such as environmental factors, (local language and traditional customs). Judgment involves weighing the available information and making an objective evaluation of the factions while decision refers to the course of action ultimately chosen by the decision maker. This information is stored in memory and may affect the decision-makers' analyses. The strategies of judgment that influence decision choice are under an individual's deliberate control. The processes of individuals can be represented in an organized manner and to understand these processes, it is important to break up all the pathways marked with arrows into sets of individual pathways. These can then be independently analysed for their contributing properties to individuals' processes (Rodgers & Epstein, 1997).

Figure 4 The Throughput Model
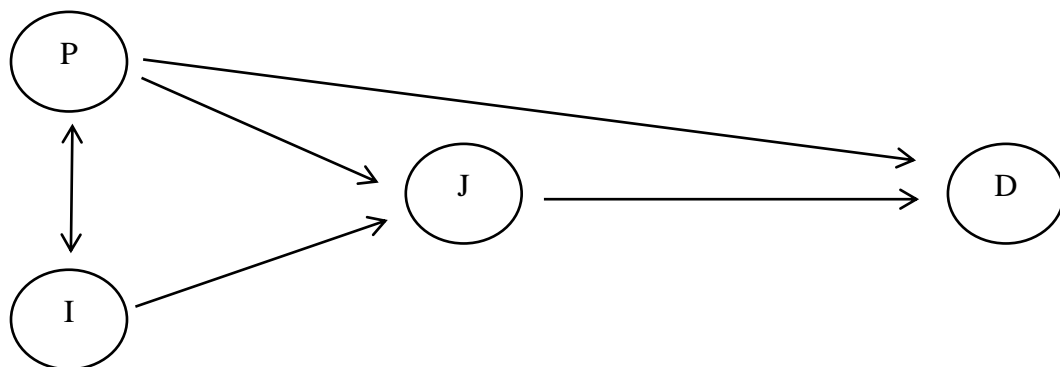
(Rodgers & Gago, 2001:357)

4.4 Decision-making Pathways

There are potentially six distinct pathways that are available to decision-makers in the throughput model. It is important to understand that decision-makers may select different decision pathways based on differing moral philosophical values. The Throughput Model assists us to understand what motivates people to use different pathways and hence potentially arrive at different decision choices.

I→P→J→D: This pathway denotes the global perspective pathway, whereby information is crucial and dominates perception in "open-minded" (Rodgers et al., 2009:352) people, and then the decision choice is fashioned based on judgment. For example Rodgers (1999) pointed out that internal auditors give valuable recommendations to managers with regard to customer satisfaction (I), then managers are influenced by these recommendations (P) which leads to a decision (D) related to customers' satisfaction after they have made a judgment (J).

P→I→J→D: This represents the value-driven pathway, which indicates that information is important but it is dominated by perception and will affect the decision choice through judgment. The value driven pathway starts with identifying the values that are most important to a decision maker, and understanding the beliefs that support these values. What decision makers are striving to do is to bring their values to the fore and give them a more essential role influencing their analytical pathway of making decisions (i.e. perception influences I→J→D). Essentially, the values incorporated in perception influence the information used in judgment before rendering a decision choice.

P→D: refers to the "expedient pathway," (Rodgers, 2006:69) which denotes that a great deal of emphasis is placed on how we frame presented problems, and not much weight is placed on the available information set. Many decisions implementing this pathway are based on experience in a particular situation that allows for the reinforcement of a strategy or heuristic or to draw on an individual knowledge base.

P→J→D: This "ruling guide" (Rodgers, 2006:100) pathway is regarded as a perceptual framing of the decision choice in which a decision maker may use their expertise and other strategies, or apply heuristics to reach a decision. They could also be under time pressure or simply have an aversion to new informational sources and this affects their decision making process. Decision-makers in this case fail to appropriately consider relevant information, being driven by this rule-guiding behaviour, which can lead them to making sub-optimal decisions.

I→J→D: This is what can be considered to be the normative pathway, that would be ideal for decision-making under most circumstances. Information is crucial in this pathway, because it reflects an analytical viewpoint that judges the correctness of a decision by its outcomes. Hence, this particular pathway relies on information to evaluate alternatives and reach a rational decision. When decisions are made in this manner, typically under conditions of uncertainty, they are consequentialist in the sense that they are determined by an assessment of the potential consequences and their perceived likelihood. The decision is based on an objective evaluation of information and perceptions (P). Subjectivity, is not allowed to influence the judgment and decision. Decision choices based on a consequentialist evaluation of expected results are expected to fulfil a basic axiom of

decision under uncertainty known as Savage's sure-thing principle (Shafir & Tversky, 1992). The sure-thing principle (i.e., STP) reveals that if we prefer "a" to "b" assuming any possible state of the world, then we should prefer "a" to "b" even when the precise state of the world is not known. For example, it implies that if managers prefer purchasing to leasing regardless of whether or not they receive a salary bonus, then they should prefer purchasing to leasing even when the bonus outcome is not known. STP is an important implication of the consequentialist view. It captures a basic intuition of what it means for a decision choice to be determined by the expected consequences. It is a foundation of Expected Utility Theory, and it holds in other models that levy less stringent criteria of rationality (Shafir & Tversky, 1992). While this may be the normative decision pathway, the study proposes that auditors are unlikely to utilize it because foreignness (different language & and different culture) will be a significant factor (P) through which the standards will be interpreted and therefore cannot be ignored.

I→P→D: This is a revisionist-based pathway in which perception drives the decision that is ultimately made. Decision-makers are affected by their personal experience, environment, background and people around them, when making decisions. Relativism reflects some perceptual aspects of experience, training, and education as somehow relative to something else. For example, standards of justification, principles or practicality are sometimes said to be relative to language, culture, or biological makeup. While relativistic lines of thought may lead sometimes to very implausible conclusions, they have captivated a wide range of decision makers from a wide range of traditions. The "relativism" (Rodgers, 2006:53) idea lies at the heart of the most significant and effective relativistic propositions ever proposed. For example, Galileo discovered that the truths about motion are unpredictably relational in

that the motion of an object is always relative to a variable frame of reference. And Einstein revealed that the truths about mass are unpredictably relational in that the mass of an object is always relative to a variable frame of reference.

The relativism position (IPD), which assumes that decision makers use themselves or the individuals around them as their basis for defending moral principles. That is, this perception allows people to change their moral beliefs based on situational circumstances. A clash of values and interests, and tensions between what is and what some people believe can prevent accommodations with other interested parties (Coser, 1957). An action that is right or wrong rests based on the ethical rules of the society in which it is practiced. The same action may be moral in one society but be immoral in another. For the moral relativist, there are no worldwide ethical standards since culture and changing environments dictates the appropriate moral decision elections. The only ethical standards against which an organization or society's performs can be judged are its own (Velasquez & Velazquez, 2002).

The relativism-based pathway begins with information that we assume is both reliable and relevant. Next, perception is influenced by the informational sources that alter, add, or detract from previous held positions. Finally, decision choices are guided by these processes. A key feature of this pathway is that it bypasses the judgment stage. Perception is so important that no objective evaluation is made of the information and the decision is ultimately driven by perception.

The researcher selected this pathway because it is more suitable for the Saudi context. For example in Saudi, traditional values such as loyalty to family are essential and powerful (Rice, 2004). These types of values and beliefs count as perceptions in the Throughput

model, which gives a high degree of importance to their impact on the decision making processes. Furthermore, this study assumes that the decision of internal auditors will be affected by their perceptions without making any judgment of the ideal or optimal reactions, which matches the assumption of the relativism pathway that does not pay attention to the judgment phase.

All in all, the reason why the researcher selected this pathway is because this study assumes that the perceptions of internal auditors will affect their compliance with the International Standards for the Professional Practice of Internal Auditing and the relativism pathway also assumes that perception plays a critical role in the decision making process.

The study proposes that for purposes of deciding whether or not to comply with auditing standards, auditors are most likely to select this relativism based pathway, because of the strong influence of foreignness on the decision process. Based on this, the following section attempts to map the auditors' decision-making process onto this pathway.

Figure 5 The proposed conceptual pathway
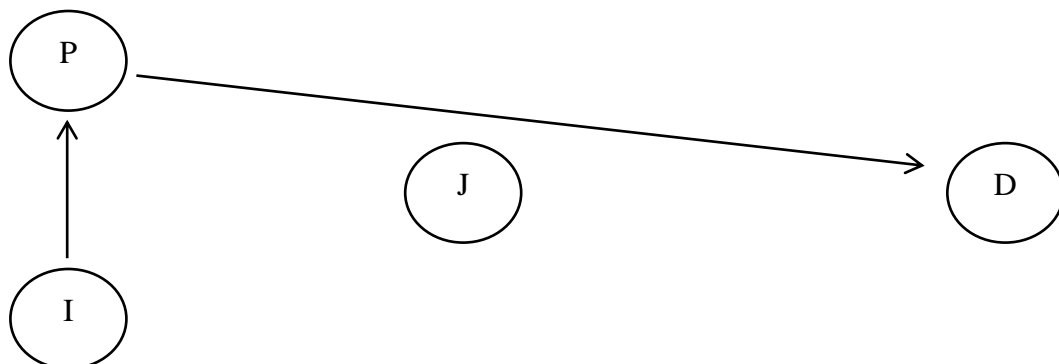
(Rodgers & Gago, 2001:362)

4.5 Operationalization of the Model

Information (I) is the information details about the respondents, such as their position in the organization and level of English language, as this study is conducted in an Arab country where the official language is not English. Perception (P) is how the internal auditors perceive the standards, both in terms of how they understand or interpret them as well and their ability to comply with them. This perception is influenced by their environment, and the specific elements of the environment the study consider in this case are *Relational Social Capital* and *Linguistic Social Capital.*

According to the propositions in this study, internal auditors acquire information (I) related to the decision of the details of the internal auditors (D) whether or not to comply with these standards. This decision may be influenced by their environment and beliefs (P) which are largely determined by their background as influenced by the two main dimensions of social capital. The first one is *Linguistic Social Capital (LSC),* which consists of *Understanding* and *Translation* aspects, and the second one is *Relational Social Capital (RSC)*, which includes *Family Social Capital, Friendship Social Capital* and *Personal Social Capital*. This perception will lead the auditor to the Decision (D) stage of whether or not to comply with the standards without analysis or re-contextualization of the information. Thus the judgment (J) stage is bypassed and the internal auditors will not fully comply with the standards.

Peltokorpi and Vaara (2012) indicated that as companies grow globally and their foreign processes become more distributed, differences in "natural" (Peltokorpi & Vaara, 2012:807) languages begin to affect communication within and outside their boundaries. In

order to deal with these challenges, multinational companies (MNCs) have framed language policies for business communication, documentation, and interaction. Shared systems of meaning, representation, and understanding are an important aspect of the cognitive dimension of social capital (Nahapiet & Ghoshal, 1998). Because the study examines compliance with the standards between speakers of languages which are totally different, the language dimension becomes an important factor to consider when looking at compliance with standards. Language can be looked at from two perspectives, that of *Understanding*, which examines how internal auditors understand the standards directly from their source and also that of translation, which is how internal auditors deal with international standards translated by their local professional institute. Where standards are being read in English, the different cultures may affect the interpretation; hence, auditors may fail to comply with them because they misinterpreted them. Where the standards have been translated into local languages, some of the meaning may have been eroded in the translation, potentially leading to failure to comply. Regardless of the perspective taken, language will affect *Understanding* and consequently, compliance with the standards. Hence, the following proposition is made:

Proposition 1: *Linguistic Social Capital (LSC)* influences compliance with the auditing standards in organisations through the *Understanding* and *Translation* dimensions.

Adler and Kwon (2002) defined social capital as the relationships between persons and entities that would run the processes in the business environment more smoothly. However, in some nations, culture such as traditional customs have a strong impact on the business community inside the organisation. Burt (2005) defined social capital as benefits occurred from a person's location in a set of interlinked relationships. Thus, relationships with

others, which may take various forms, including prior relationships, network ties, or membership in a clique, are central to the social capital perspective. From such a capital perspective, the value of prior relationships with others is that they promote opportunity and willingness (Stevenson & Radin, 2009). Consequently, individuals who grew up in a particular environment may become leading actors who influence business processes and procedures, because they are already saturated in the relevant tradition. For example, studies in developing countries, such as Saudi Arabia, have found that terminations of low performance employees are very rare, because the desire for relationships results in life employment (Cassell & Blake, 2012). A factor like this would impact RSC. In the internal audit context, several researchers found that CFOs are the people who have the power to hire or dismiss the internal auditors and such personal power will undoubtedly affect the independence of the internal auditing department and indirectly the desire or ability to comply with auditing standards (Christopher et al., 2009). If we are to further consider factors like culture (as in the example cited above), this can potentially have a significant impact on the social capital that is built within the internal audit department. The auditing standards are developed in a cultural setting that has different customs and traditions and therefore this difference will affect the understanding and interpretation of the standards and whether they will be complied with. Thus, the following Proposition is made.

Proposition 2: *Relational Social Capital (RSC)* influences compliance with the International Standards for the Professional Practice of Internal Auditing in organisations through family, friendship and personal relations. Another kind of social capital is that developed among family members as *Family Social Capital (FSC)* (Arregle et al., 2007). It is commonly assumed in organizational social capital research that organizational members have a similar perspective on their environment, which contribute to functional

relationships and the organization's social capital. However, organization members may be heterogonous, comprising a variety of social groups, whether formal groups such as project teams, departments, divisions, subsidiaries, and strategic business units, or informal groups such as founders, communities of practice, or even family members (Arregle et al., 2007). Bubolz (2001) highlighted the role of the family as a source, builder and user of social capital. This is because the relationships among family members provide a conductive environment for the development of social capital (Coleman, 1988). In this respect, Rice (2004) claimed that there are two perspectives that impact the business culture in Arab countries, religion and the Bedouin tradition. The Bedouin tribal heritage refers to values such as loyalty to family. The researcher stated that loyalty to family, then the clan, and then the tribe are essential and most powerful in Arab societies. As a result of this, he found that job security and development are basically based on family loyalty and friendship rather than technical ability or management performance. Such a situation arises because each member of the family has the opportunity for social transactions with other members, who provide information, influence, and solidarity to the advantage of the receiving members. Therefore, except where substantial problems exist, these relationships tend to reinforce devotion, generosity, and solidarity within the family (Bourdieu, 1994), so that member in effect work as a team. The family is also affected by economic motives because family members are united by a shared understanding while also competing with one another. Strengthening a family's social capital increases its chances of survival and the well-being of its members. For these reasons, it has been suggested that *Family Social Capital* is probably one the most lasting and powerful forms of social capital (Arregle et al., 2007).

A comprehensive view of the proposed conceptual framework is depicted below.

Figure 6 The proposed conceptual framework
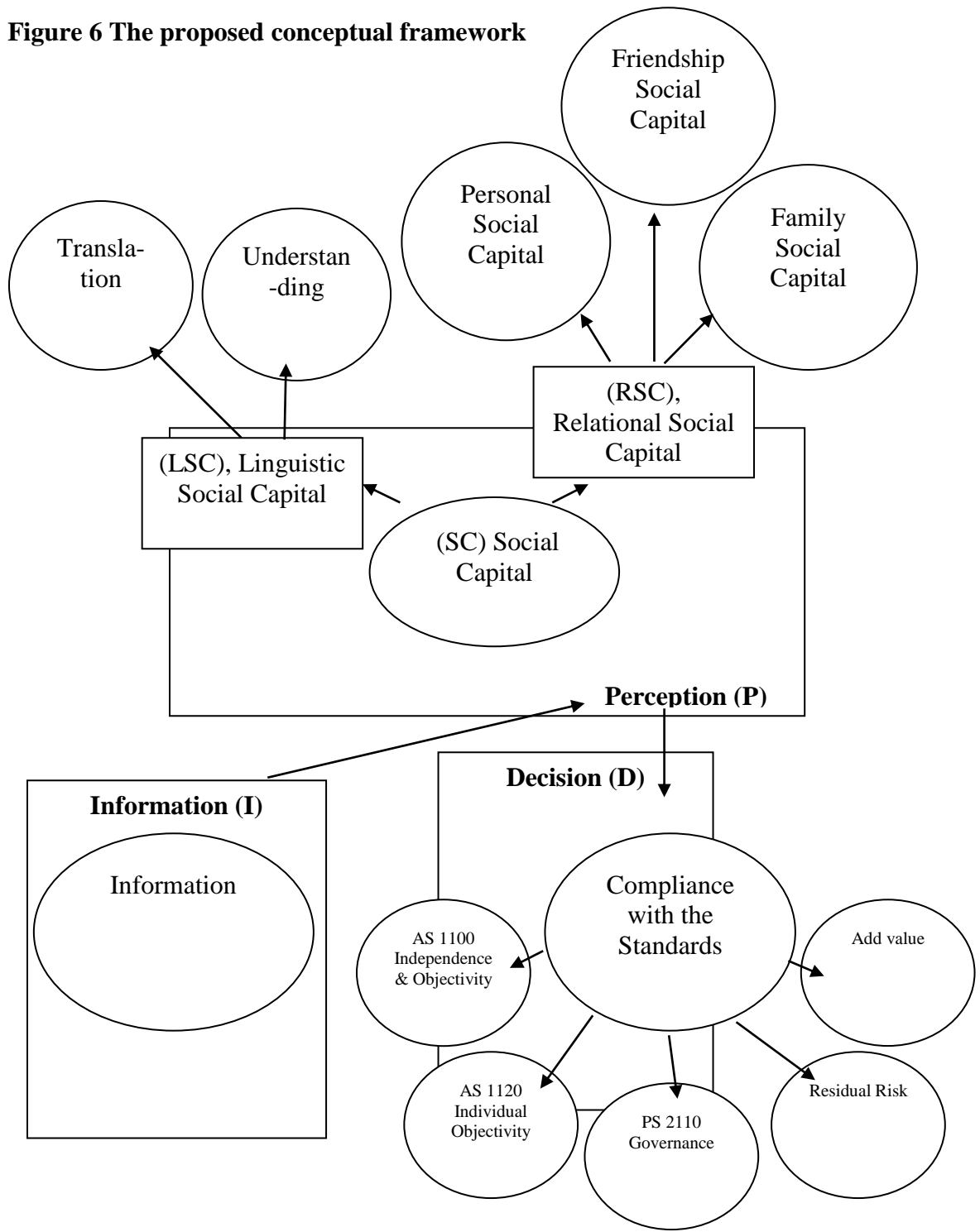
(Source: Author)

4.6 Hypotheses

From the previous section, the hypotheses of this study can be divided into *Linguistic Social Capital* and *Relational Social Capital* as followings;

H 1: There is a positive influence of *Linguistic Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing. This hypothesis can be broken into four sub-hypotheses as follows;

H 1 a: There is a positive influence of *Linguistic Social Capital* through *Understanding* construct in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to the *Residual Risk* term.

H 1 b: There is a positive influence of *Linguistic Social Capital* through *Understanding* construct in compliance with the International Standards for the Professional Practice of Internal Auditing, concerning the *Add Value* term.

H 1 c: There is a positive influence of *Linguistic Social Capital* through *Translation* construct in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to the *Residual Risk* term.

H 1 d: There is a positive influence of *Linguistic Social Capital* through *Translation* construct in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to the *Add Value* term.

The following hypotheses were proposed for Relational Social Capital;

H 2: There is a negative influence of *Relational Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing. This hypothesis can be broken into nine sub-hypothesises as follows:

H 2. 1: There is a negative influence of *Personal Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to independence and objectivity, standards number AS 1100.

H 2. 2: There is a negative influence of *Personal Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to Individual Objectivity, standards number AS 1120.

H 2. 3: There is a negative influence of *Personal Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to *Governance*, standards number PS 2110.

H 2. 4: There is a negative influence of *Family Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to independence and objectivity, standards number AS 1100.

H 2. 5: There is a negative influence of *Family Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to Individual Objectivity, standards number AS 1120.

H 2. 6: There is a negative influence of *Family Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to *Governance*, standards number PS 2110.

H 2. 7: There is a negative influence of *Friendship Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to independence and objectivity, standards number AS 1100.

H 2. 8: There is a negative influence of *Friendship Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to Individual Objectivity, standards number AS 1120.

H 2. 9: There is a negative influence of *Friendship Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regard to *Governance*, standards number PS 2110.

In terms of the number of hypotheses, the total number of main hypotheses is two. The first one is related to Linguistic Social Capital and the other related to Relational Social Capital. With regard to sub-hypotheses, the total number is fourteen. The first four are related to Linguistic Social Capital (understanding and translation) and professional terms (Add Value and Residual Risk). The others nine sub-hypotheses are related to Relational Social Capital (Family Social Capital, Personal Social Capital, and Friendship Social Capital) and its effect on compliance with the International Standards for the Professional Practice of Internal Auditing the Standards (Independence and Objectivity, Individual Objectivity, and Governance).

4.7 Proposed Conceptual Framework

The major concept of the conceptual framework is foreignness, and as explained previously, foreignness is generally understood to mean the dissimilarity or lack of agreement in action contexts between two different environments (Kindleberger, 1969; Hymer, 1976). Cultural distance is a major sign of organisational foreignness (Child & Markoczy, 1993; Barkema et al., 1996; Gomez-Mejia & Palich, 1997). The researcher depicts foreignness as social capital, which looks at it from three perspectives as proposed by Nahapiet and Ghoshal (1998): cognitive (codes and language), relational (norms, and obligations) and structural (network ties, network configuration) for analytical purposes. Therefore, the conceptual framework proposes that social capital elements, which consist of

two main dimensions (relational and linguistic), have influenced the compliance with the standards. In other words, this conceptual framework anticipates that the *Linguistic Social Capital*, *Understanding* construct and *Translation* construct have an influence on professional auditing terms such as *Add Value* and *Residual Risk*. The framework of *Relational Social Capital* assumes that Personal Social Capital, Friend Social Capital, and *Family Social Capital* have an impact on the International Standards for the Professional Practice of Internal Auditing with regard to *Independence and Objectivity, Individual Objectivity*, and *Governance*.

4.8 Independent Variables

In terms of Linguistic Social Capital, many countries may recognize and use English as an official language and have no trouble in the basic comprehension of the standards, but meaning may not be completely and accurately conveyed in the nuances of the language that are unique to different cultural settings. As a result of this differentiation, the study assumes that language will play a critical role with regard to Understanding and consequently complying with the standards. In cases of the non-English speaking countries, the IIA has tried to solve this issue by translating the standards into the host country language. Thus, this study is considering two main variables that affect the Compliance with the International Standards for the Professional Practice of Internal Auditing. The first one is Understanding (independent variable) which means understanding the standards from the original language (English) without any translation while the second dimension is Translation, and considering Add Value and Residual Risk as dependent variables. The reason why I selecting these two terms, Add Value and Residual Risk, is because these

terms are part of the definition of Internal Audit Activities identified by IIA (2012), and misunderstanding them may misguide the main purpose of internal audit activities.

In terms of Relational Social Capital, Individuals can use their personal contacts to get jobs, to get information, or to access particular resources. Personal Social Capital refers in this study as favoritism which can be defined as favouring someone over others and that is only because of management prefer that individual or group (Kwon, 2005). Therefore, such phenomenon may cause problems in firms because employees and managers are not chosen based on knowledge, experience, skills, and qualification and this unfair treatment exists more in less developed countries. As a consequence, skilled workers and qualified people are not getting suitable positions in organisations, and as a result of this, their motivation and performance are low compared with other favoured employees (Özler & Buyukarslan, 2011). Therefore, this type of connections might affect the company's policy and break compliance with the standard by softening the role of the internal auditor or ignoring negative reports from the internal auditor to the auditee because of this unfair treatment. Consequently, Independence, Individual Objectivity, and Governance standards might be influenced. Thus, this study assumes that there is a relationship between the Personal Social Capital as a part of social capital and compliance with the International Standards for the Professional Practice of Internal Auditing on independence and objectivity, Individual Objectivity, and Governance.

The reason of why I have chosen these variables is because, several studies have discussed and examined compliance with International Standards for the Professional Practice of Internal Auditing around the globe from the perspective of internal factors, for instance

internal auditors' educational level (i.e. college degree), professional certificates, Certificate of Internal Auditors (CIA), membership of organisation and age of internal audit staff. These factors gave useful feedback for organisations and stakeholders about the reasons for non-compliance with the Standards from a direct and internal perspective. However, there is limited study that examined compliance with International Standards for the Professional Practice of Internal Auditing from a wider, external and environmental perspective. This study examines the culture perspective in terms of new dimensions that limited academic studies have examined previously, but which are assumed to have a significant impact to the compliance with the International Standards for the Professional Practice of Internal Auditing. These are friendship, and the Arabic tradition, which Rice (2004) claimed impact the business culture in Saudi Arabia. The Bedouin tribal heritage refers to values such as loyalty. Rice said that loyalty to family, then the clan, and then the tribe is essential and most powerful in the Arab society. As a result of this, he found that job security and development are basically based on family loyalty and friendship, rather than technical ability or management performance. Therefore, one of the contributions of this study is to examine the effect of these cultural factors, loyalty to family, personal relationship, and friendship, on compliance with the International Standards for the Professional Practice of Internal Auditing.

4.8.1 Linguistic Social Capital

Many countries may recognize and use English as an official language and have no trouble in the basic comprehension of the standards, but meaning may not be completely and accurately conveyed in the nuances of the language that are unique to different cultural

settings. As a result of this differentiation, the study assumes that language will play a critical role with regard to *Understanding* and consequently complying with the standards. In cases of the non-English speaking countries, the IIA has tried to solve this issue by translating the standards into the host country language. Thus, this study is considering two main variables that affect the Compliance with the International Standards for the Professional Practice of Internal Auditing. The first one is *Understanding* which means *Understanding* the standards from the original language (English) without any translation; while the second dimension is *Translation*.

4.8.2 Understanding

Understandability measures the reader's ability to obtain knowledge from a text, and is based not only on syntactical strength, but also on the background of the reader, previous knowledge and interests, and general ability in reading. Thus, the study assumes that there is a relationship between the *Understanding* construct and professional standard terms of the International Standards for the Professional Practice of Internal Auditing such as *Residual Risk* and *Add Value* and this influence might occur because of several reasons. One of the main important causes is the language differences between the standards' language of the home country, the United States of America and the local language of the host country, the Kingdom of Saudi Arabia.

4.8.3 Translation

The main aim of translation is to find a particular form of equivalence between the original text and the translated text. The Institute of Internal Auditors in the Kingdom of Saudi Arabia issued the International Standards for the Professional Practice of Internal Auditing

in the Arabic language. Previous literature claimed the translation process does not always reflect the same meaning and that might be due to the culture differences between two different countries. Therefore, this study examines the influence of *Translation* of the International Standards for the Professional Practice of Internal Auditing in *Understanding* the professional auditing terms such as *Residual Risk* and *Add Value*.

4.8.4 Relational Social Capital (RSC)

In some nations, culture such as traditional customs have a strong impact on the business community inside the organisation and therefore can greatly affect the make-up and function of these networks. While social capital has become a significant concept in current management studies, relationships, or relational capital, have been vital in the culture, business dealings and academic writings in Asian nations for several centuries (Wee & Lan, 1998). Thus, most conceptions of social capital contain relations or networks of relationships among people and organizations, which facilitate action and thereby generate value (Seibert et al., 2001; Adler & Kwon, 2002). Therefore, relationships are the most vital aspect of social capital. This study considers three type of such relations, the first one is personal social capital, the second is family social capital, and the third one is friendship social capital.

4.8.5 Personal Social Capital (PRSC)

Individuals can use their personal contacts to get jobs, to get information, or to access particular resources. *Personal Social Capital* refers in this study as favoritism which can be defined as favouring someone over others and that is only because of management prefer that individual or group (Kwon, 2005). Therefore, such phenomenon may cause problems

in firms because employees and managers are not chosen based on knowledge, experience, skills, and qualification and this unfair treatment exists more in less developed countries. As a consequence, skilled workers and qualified people are not getting suitable positions in organisations, and as a result of this, their motivation and performance are low compared with other favoured employees (Özler & Buyukarslan, 2011). Therefore, this type of connections might affect the company's policy and break compliance with the standard by softening the role of the internal auditor or ignoring negative reports from the internal auditor to the auditee because of this unfair treatment. *Consequently, Independence, Individual Objectivity,* and *Governance* standards might be influenced. Thus, this study assumes that there is a relationship between the *Personal Social Capital* as a part of social capital and compliance with the International Standards for the Professional Practice of Internal Auditing on *independence and objectivity, Individual Objectivity*, and *Governance*.

4.8.6 Family Social Capital (FMSC)

Family members share common values and these enable them to work together and function as a unit. These shared values may not match with company's policy and standard's profession, for instance, Rice (2004) claimed that loyalty to family, then the clan, and then the tribe is essential and most powerful in Arab societies. Also he found that job security and development are basically based on family loyalty and friendship, rather than technical ability or management performance. Therefore, one of the factors of *Relational Social Capital* is family social capital. This independent variable is known also as nepotism. When an individual is endorsed on the basis of family, irrespective of capability, education, skills etc. it is termed nepotism (Gumustekin, 2007). In the Arab region, social networks based on family networks are important forces in all aspects of

decision-making and therefore play a critical role in the career development of individuals. Thus, this study hypothesizes that there is a relationship between *Family Social Capital* as an independent variable and compliance with the International Standards for the Professional Practice of Internal Auditing on *independence and objectivity, Individual Objectivity,* and *Governance*.

4.8.7 Friendship Social Capital (FRSC)

In regard to influences of work environment, an employee's friendships have an important role in the effectiveness of the workplace environment (Winstead et al., 1995; Sias & Cahill, 1998; Berman et al., 2002). These impacts can influence work effectiveness via two ways: first, manager-subordinate relationships (Boyd & Taylor, 1998) and second, being a part of the system of making decisions, utilizing resources, and transferring information (Lincoln & Miller, 1979). Friendship is also known as a Cronyism. When friends (excluding family members) are given undue positions it is referred to as cronyism (Arasli & Tumer, 2008). Cronyism is a well-known phenomenon and it has two types namely, horizontal and vertical. The first type of cronyism occurs between peers, for example friends, co-workers, and classmates. This form has been held to be one of the main causes of the Asian financial crisis. While the first type of cronyism focuses basically on the relationship between peers, the second type of cronyism depends on superior-subordinate relations within the firm (Khatri & Tsang, 2003) these connections can have a critical influence on the work environment and as a result the job might not be done independently and objectively. Therefore, this study hypothesizes that there is a relationship between *Family Social Capital* and compliance with the International Standards for the Professional

Practice of Internal Auditing with regard to *Independence and Objectivity, Individual Objectivity,* and *Governance*.

4.9 Dependent Variables

4.9.1 The International Standards for the Professional Practice of Internal Auditing

The main dependent variable in this study is the International Standards for the Professional Practice of Internal Auditing. The structure of the Standards is divided into two types, the Attribute Standards (AS) and the Performance Standards (PS). The AS consider the attributes of entities and individuals performing internal auditing, while the PS refer to the nature of internal auditing and deliver quality standards against which the performance of these services can be assessed. Furthermore, these standards include many professional terms that reflect special meanings such as *Add Value* and *Residual Risk*. In the following sections, the study illustrates these terms and both type of standards as dependent variables.

4.9.2 Add value and Residual Risk

Because the main purpose of this study is to examine the impact of foreignness on the compliance with the standards, the main concept of this study is compliance with the standards. As mentioned previously, there are several factors that may hinder compliance with the standards such as social capital, whether it be *Linguistic Social Capital*, *Relational Social Capital* or *Family Social Capital*. The following section will discuss several other concepts that could be affected by these factors.

In terms of language, the standards include many professional terms such as *'Add Value'* and '*Residual Risk'*, which were included in language that is totally different from the local languages in use by many internal auditors' environments. The IIA (2013) claimed that the internal audit activity adds value to the business when it produces objective and appropriate declaration, and contributes to the effectiveness and efficiency of governance, risk management, and control procedure. With regard to *Residual Risk, Residual Risk* is the risk left over after management take a decision to decrease the effect and probability of an unfavourable event, including control activities in responding to a risk. The reason why I selecting these two terms, *Add Value* and *Residual Risk*, is because these terms are part of the definition of Internal Audit Activities identified by IIA (2012), and misunderstanding them may misguide the main purpose of internal audit activities.

In order to understand these terms, internal auditors have to have an adequate level of standard language. In fact, many staff in Asian countries do not practise English in their business environment (Evans et al., 2015). Therefore, in this study it is assumed that many standards will not be implemented for this reason. Consequently, the study will examine the terms *Add Value* and *Residual Risk*, which will be influenced by the linguistic dimension.

Furthermore, many professional institutes have tried to solve this kind of problem by translating home country standards into the host country language. However, a number of scholars have criticised this process and noted drawbacks to it (Evans et al., 2010). This leads the researcher to pay attention to the *Translation* dimension, which may influence the internal auditors' compliance with the standards. All in all, the study assumes that the terms

Add Value and *Residual Risk* will be affected by the linguistic dimension, which includes *Understanding* and *Translation* dimensions.

4.9.3 Objectivity

Seol et al. (2011) claimed that one of the critical perspectives of an organization's internal audit function is the quality of its internal auditing employees. One of the main aims of their study was to investigate the required skills of internal auditors. The authors pointed out that besides the cognitive skills such as technical skills, analytic/design skills and appreciative skills, there are behavioural skills which are important factors that can affect the quality of internal auditing, such as honesty, integrity, intelligence and objectivity or biased opinions. The result of their study provided a number of issues for future research on the connection between internal auditor characteristics and a large range of organizational issues, for example ethical, liability, quality, risk, and service dimensions, which go beyond the standard financial and operational performance issues. Internal auditors should consider and understand the potential threats of objectivity. Regarding personal conflict for example, as a result of having a strong relationship with friends, internal auditors might face potential personal conflict when they are to act against their close friend based on the IIA code of ethics and report the misconduct of their workmate (Ahmad & Taylor, 2009). Furthermore, Mutchler (2003) claimed that internal auditors in many cases might be intended to soften or postpone reporting negative audit outcomes in order to avoid embarrassment from relative and friends with such negative reports.

4.9.4 Individual Objectivity (AS 1120)

With regard to Individual Objectivity, Goodwin and Yeo (2001) claimed that internal auditors must avoid conflict of interest and have unbiased behaviour and impartial attitude. In terms of *Individual Objectivity* (AS 1120), the purpose of the *Individual Objectivity* is that internal auditors should have a fair, unprejudiced attitude and avoid any conflict of interest (IIA, 2013). It can be observed from this that both attributes standards deal with objectivity, so internal auditors have to be objective. However, this characteristic may not always be available in all business environments. For example, Rice (2004) said that loyalty to family, then the clan, and then the tribe are essential and most powerful in Arab societies. As a result of this, he found that job security and development are basically based on family loyalty and friendship, rather than technical ability or management performance. Therefore, this study will examine the influence of *Relational Social Capital* and *Family Social Capital* on compliance with both standards.

4.9.5 Independence

Christopher et al. (2009) claimed that a vital part of the management control structure is the internal audit function, which is used by the board (through the audit committee) and management to fulfil responsibilities in line with social expectations. However, despite the crucial role of internal auditing in organisations, there are several factors that could impede the actual role of internal auditing, such as Management Threats (MT) and Audit Committee Threats (ACT). The authors presented a critical analysis of the independence of the internal audit function. The purpose of their study was to critically analyse the independence of the internal audit function in terms of its relationship with management

and the audit committee. The study was implemented in Australia and considered two types of threats that could affect the independence of internal auditing. The first type of threat is the Management Threats (MT). Under this kind of threat, several factors were discussed such as the stepping stone concept, and the budget of the internal audit department. With regard to the budget, the researchers found that the Chief Financial Officer (CFO) in some Australian organisations approved the internal auditing budget. This could affect the independence of internal auditors, if the CFO limits the budget for reasons of self-interest, which may cause a shortage of internal audit staff inside the organisation and limit training. Hence, internal auditors will not cover all departments inside the entity.

In terms of the second type of threat, Auditing Committee Threats (ACT) played a crucial role in affecting the independence of internal auditing. For example, "hiring and firing" (Christopher et al., 2009:205) basically is one of the functions that can be used by the audit committee. However, in this study the researchers found that in fact the CFOs are the people who have the power to hire or dismiss the internal auditors. Again, such personal power will affect the independence of the internal auditing department. Overall, it was concluded that personal and cultural factors can negatively impact the profession fieldwork. Furthermore, Goodwin and Yeo (2001) pointed out that to reach organisational independence, the head of internal audit department must report to a level inside the company, which permits the activities of the internal audit in order to achieve its responsibilities.

Vanasco (1994) claimed that independence is an unavoidable concept for internal auditors. The author also pointed out that internal auditors should not be setting a status that

threatens their independence or even calls into question their capability to take objective professional assessment and decisions. An ideal status of internal auditors is the freedom to report any issue or case they audit and their reporting activities should not be subject to any influences (Sawyer, 1996). Thus, independence is one of the most critical criteria for obtaining effective internal audit functions.

Users such as stakeholders and shareholders assume that internal auditors are fully independent to make any judgment and take decisions (Mutchler, 2003). Furthermore, the author pointed out that internal auditors are anticipated to have integrity and engagement to deliver unbiased decisions. Therefore, to behave independently, internal auditors should be conscious of all kind of impacts that they may face which may be invisible or subtle so as to be barely identifiable (Mutchler, 2003). Vanasco (1994) mentioned that during the operational audit process, internal auditors develop their relationship with other employees and departments to influence their independence. In addition to this, they may be affected by bonuses or incentives. For example, Dezoort et al. (2000) examined the influence of incentives and financial benefits to the performance of internal auditors. Their study showed that the objectivity and the independence of internal auditors have been affected by incentive compensation. Similarly, the result of Schneider (2003) showed that when incentive compensation is linked to shares and its prices, internal auditors will not report GAAP violations frequently. Internal auditors might not be truly independent when they are on the company's payroll (Vinten, 1999).

Goodwin and Yeo (2001) examined several factors that might influence the independence of the internal audit function. One of the factors that might decrease the level of

independence of an internal auditor is when management will use internal audit function as management training to potential managers in the future. Thus, during these processes and improvement for line management positions, it is argued that such practice may occur and threaten the independence. This threat may happen due to the reason that the auditee might be the direct boss of the potential managers after finishing their training in the audit department. Their research outcomes showed evidence that the process of training potential managers in internal audit department influences the independence of an internal audit department.

4.9.6 Independence and objectivity (AS 1100)

The internal audit standards consist of two main categories; The Attribute Standards (AS) and the Performance Standards (PS). The AS have to do with the attributes of entities and persons practicing internal auditing such as *Independence and Objectivity* (AS 1100) and *Individual Objectivity* (AS 1120). AS 1100 is the independence of restrictions, which concerns the ability of the internal audit activity to carry out internal audit accountability in an unprejudiced way (IIA, 2012). The Institute of Internal Auditors identify independence as follows: "Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner" (IIA, 2012:3). Therefore, to achieve this level of independence, and have a high degree of responsibility for the internal audit functions, the Chief Audit Executive has to have a direct link and access to the audit committee, management and the board. This access can be reached by a dual-reporting relationship. There are several threats that could influence the auditor's independence; however, these threats should be managed and controlled at functional, commitment, individual and organisational levels. Whereas, objectivity is also

defined by the Institute of Internal Auditors as "an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made (IIA, 2012:3). Thus, to achieve this level of objectivity, internal auditors should not depend on their judgment in reporting audit issues to others and the treatment of threats into the independence should be extended to objectivity. In other words, objectivity threats should be managed and controlled at functional, commitment, individual and organisational levels.

4.9.7 Governance (PS 2110)

The Institute of Internal Auditors identify independence as follows, "The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives (IIA, 2012:20). In addition to this, the Institute of Internal Auditors stated in its standards that many tasks that should be assessed by internal audit activities as follows:

> "The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for; making strategic and operational decisions, overseeing risk management and control, promoting appropriate ethics and values within the organization, ensuring effective organizational performance management and accountability, communicating risk and control information to appropriate areas of the organization, coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management" (IIA, 2012:11).

Furthermore, the Institute of Internal Auditors stated that the activities in the internal audit should assess the design, applications, and effectiveness of the ethics of the entity that is linked to its activities, and objectives. Moreover, the Institute also pointed out that the internal audit activity should evaluate that information technology governance helps the organisation in achieving its goals and implementing its strategies. (IIA, 2012).

The Performance Standards explain the nature of internal auditing and deliver quality criteria against which the performance of these services can be measured. One of the Performance Standards (PS) is *Governance* PS 2110. One of the crucial aims of this standard is that the internal audit activity must evaluate and make suitable suggestions for developing the governance procedure in order to promote right ethics and principles within the firms (IIA, 2012). As the study has indicated previously, *Family Social Capital* (FSC) is an important part of Social Capital which plays a critical role in individuals' behaviours. Thus, this study will examine how internal auditors can deal with social power challenges such as strong social ties or *Family Social Capital* and compliance with such standards that is not easy to be implemented in fieldwork.

4.10 Summary and Conclusion

This chapter discussed the Throughput Model background and its major elements, Information (I), Perception (P), Judgment (J) and Decision (D). Furthermore, the chapter illustrated the operationalization of the Throughput Model and the interaction of the research variables such as demographic, independent and dependent variables. Moreover, this chapter presented the hypotheses, which were divided, into two main groups, the first

group was about *Linguistic Social Capital* and the second group was about the Relational Social Capital. Then, the chapter discussed the independent variables, which included *Understanding*, and *Translation* constructs under the linguistic dimension. This was followed by the Relational Social Capital, as the second set of independent variables, which included Personal Social Capital, Family Social Capital, and Friendship Social Capital. The dependent variables were also explained. The main dependent variable in this study were indicated as the International Standards for the Professional Practice of Internal Auditing. The structure of the Standards was divided into two types, the Attribute Standards (AS) and the Performance Standards (PS). The AS consider the attributes of entities and individuals performing internal auditing, such as *G*AS 1100, and *Individual Objectivity* AS 1120. The PS refer to the nature of internal auditing and delivers quality standards against which the performance of these services can be assessed such as *Governance* PS 2110. Furthermore, these standards include many professional terms that reflect special meaning, such as *Add Value* and *Residual Risk*.

5. CHAPTER FIVE: METHODOLOGY

5.1 Introduction

This chapter presents and discusses the research methods implemented to achieve the study's objectives and address the research questions. This research is based on the quantitative approach. The researcher used a questionnaire for data collection with a 7-point Likert Scale. The questionnaire contains four sections. The first part contains demographic information on internal auditors, such as education, level of English, and position in the audit department. The second and third sections are related to independent variables, while the fourth section of the questionnaire is related to dependent variables. The second section of the survey is about *Linguistic Social Capital*, which includes two constructs: *Understanding* and *Translation*. The third section considers questions about Social Capital, such as Personal Social Capital, Family Social Capital, and Friendship Social Capital. The fourth part of the questionnaire is related to the dependent variables, which are the International Standards for the Professional Practice of Internal Auditing. This section focuses on particular standards such as independence and objectivity, Individual Objectivity, and *Governance*. The last section of this chapter discusses the data collection location and method. Thus, this chapter is structured as follows: the first section will discuss research methodology and approaches, the next section will discuss the research objectives and questions, the second last section will discuss the questionnaire, and lastly the data collection procedures will be presented.

5.2 Research Methodology and Approaches

Saunders et al. (2009:131) defined research design as a plan for answering the research questions which is used by a researcher. Also, it has been identified as a scientific guide to conducting research (Clark & Creswell, 2011). It directs the researcher to the most appropriate method to collect and analyse data (Saunders et al., 2009). Mainly, there are three well-known types of surveys that are utilised for data collection: interviews, self-completion questionnaires, and interviews by telephone. Self-completion questionnaires are utilised to produce quantitative outcomes which generate a large number of answers that are comparable. As a result, this tool (closed questions) allows the researcher to create statistical findings (Oppenheim, 2000). A questionnaire was the main method used in this study. A survey is defined as a research technique to collect information from a group of people by using a questionnaire or interviews. Also it is recognised as an approach of gathering data through communications with respondents (Zikmund, 2003). A research methodology represents the philosophy of the framework for developing the research project. In other words, it is about the approach the scholar wants to apply in his research. Saunders et al. (2011) claimed that the methodology of the research includes all the process and procedures that can be used to gain knowledge and investigate effects. This research adopted Saunders' research design. Saunders et al. (2007) classified research into six phases and labelled the model as "the research onion" (Saunders et al., 2011:102). The following figure 4 presents the content of each stage.

Figure 7 The research onion
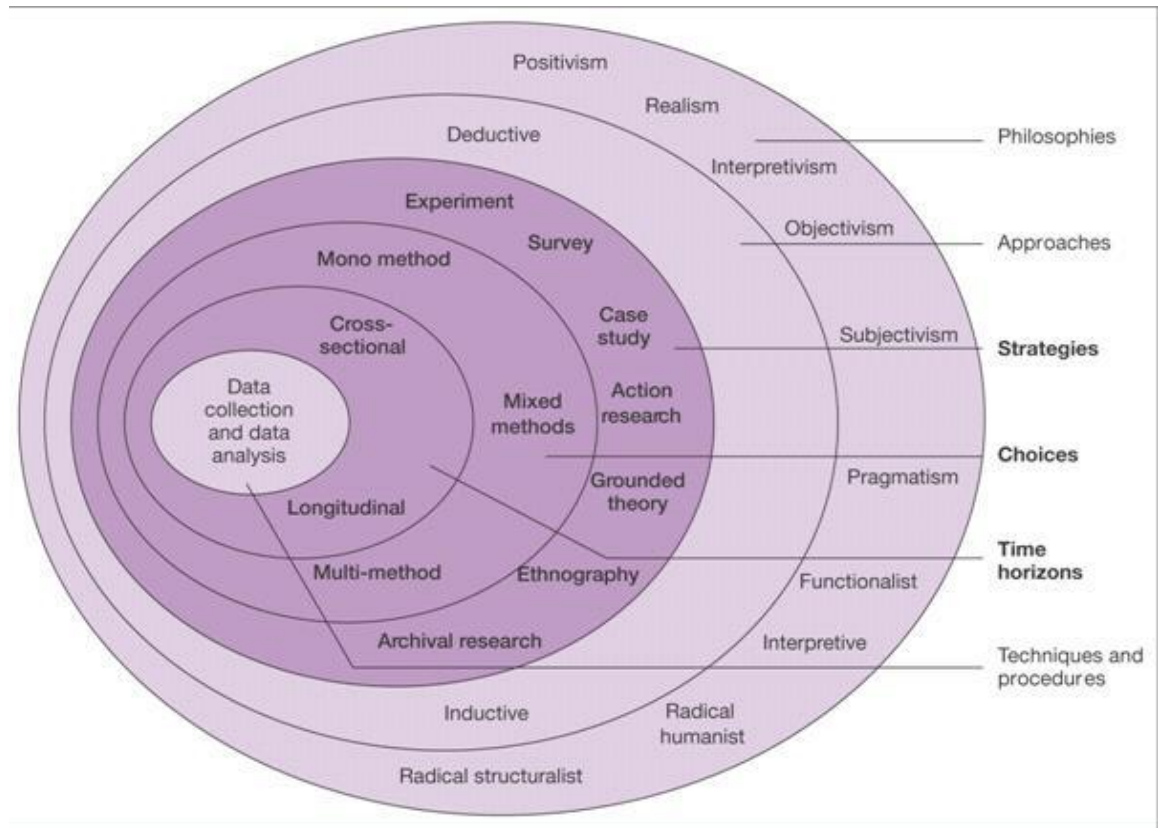
This study is based on positivist philosophy. In terms of research approach, this study adopts a deductive approach because it moves from general to specific.

The researcher will use a questionnaire strategy to test the research hypotheses. Therefore, a mono method, quantitative method is the major choice implemented in this study. In relation to time horizons, a cross-sectional design will be used for data collection. The companies were selected from the Saudi Stock Exchange Market from different sectors to have a variety of responses from many industries. For data collection survey questionnaire design with a 7-point scale (1= strongly disagree, 7= strongly agree) was used in this study. In terms of response rate of distributing questionnaires (Baruch, 1999) claimed a 35 per

cent response rate is acceptable in many management academic studies. However, this can be different in collecting primary data. Furthermore, Willimack et al. (2002) suggested that from 50 to 65 response is reasonable, based on North American university-based questionnaire surveys of business. Neuman (1993) proposed a wide range of response rate for postal questionnaires, from 10 to 50 per cent and up to 90 per cent for interviews.

In terms of population and sampling frame, "A population is the complete set of cases or group members" (Saunders et al., 2011:606). For example the population in this study is all internal auditors (Certified Internal Auditors and non-Certified Internal Auditors) in all listed companies in the Saudi Market. In terms of sampling frame, "the sampling frame for any probability sample is a complete list of all the cases in the population from which your sample will be drawn" (Saunders et al., 2011:208) as shown in the above figure. However, the sampling frame in this study covers entire population. One of the important reasons for this, is because the number of internal auditors in listed companies is possible to manage. In addition to this, the research cost is reasonable and within the budget. Furthermore, a three month period is enough to enable the researcher to conduct his data collection in various sectors.

In the current study around 610 the questionnaires were distributed to internal auditors in all listed companies in the Kingdom of Saudi Arabia, and the total number of responses received was 349 which is around 57 per cent. This study used different methods for data collection. The main approach was distributing questionnaires face to face. Another approach was via email and professional networks such as Linked-in. Moreover, because the researcher has worked in the private sector for a long period, he was able to use personal contacts in order to get access in many internal audit departments.

Oppenheim (2000) also claimed that the greater the degree of answer variety, the greater the degree of reliability (Bertram, 2007) stated that from human judgment, scaling is a suitable tool for measurement, which allows scholars to classify individuals' reactions and attitudes on a scale so the outcomes of participants are comparable. The Likert scale is also known, in some cases, as a summated scale because it is based on some calculations such as summing or adding individual's actions or reactions to get a total score. This scale allows researchers to assess the attitudes of the respondents with figures and creating a ranking. The following Table 1 illustrates the questionnaire design of this study,

Table 2 Questionnaire design

	Culture	Language
Compliance with the Standards	+ / -	+ / -
Not Compliance with the Standards	+ / -	+ / -

(Source: Author)

The reason for choosing Saudi Arabia is because all independent variables could be implemented in this country; the formal language in Saudi Arabia is not the same as that of the standards, the business environment in Saudi Arabia has numerous successful American and European organisations, and the culture in Saudi Arabia, for instance loyalty to family and friendship, encouraged the researcher to implement the study in this country.

In addition, at the time of the research, several countries such as Egypt, Libya, Tunisia, Iraq, Yemen and Syria were suffering from instability as a result of the Arab Spring. Therefore, Saudi Arabia was selected because it was safe to undertake the research.

5.3 Research Objectives and Questions

The main objective of this research is to examine foreignness as a major variable that affects internal auditors' compliance with the Standards from an environmental perspective. Based on the literature, operating business globally in a foreign market could cause associated costs compared with doing business in a local market (McCall & Kindleberger, 1969; Johanson & Vahlne, 1977).

In general, this concept is defined as "the liability of foreignness (LOF)" (Zaheer, 1995:342). These kinds of cost exist because of doing business in a different environment as well as differences in culture, market regulations, economics and politics (Zaheer, 1995). Other scholars claimed that one of the obstacles to global markets operations is cultural differences (Walter, 1988; Ohmae, 1990). The first objective is to examine the *Understanding* and practice of the Standards of internal auditors for whom English is not the first language. Therefore, the first question emerges from this objective, as follows: Question 1: Do internal auditors who do not speak English as a first language fully understand and implement the International Standards for the Professional Practice of Internal Auditing? This question can be broken down into two sub questions: Question 1 a: Do internal auditors who do not speak English as a first language fully understand and implement the *Residual Risk* term? Question 1 b: Do internal auditors who do not speak English as a first language fully understand and implement the *Add Value* term?

The second objective is to examine the *Translation* of the International Standards for the

Professional Practice of Internal Auditing whom English is not the first formal language.

Therefore, the question emerging from this objective goes thus:

Question 2: Do internal auditors who do not speak English as a first language fully

understand the translation of the International Standards for the Professional Practice of

Internal Auditing in their local language?

This question can be broken down into two sub-questions:

Question 2 a: Do internal auditors who do not speak English as a first language fully

understand the translation of *Residual Risk* term in their local language?

Question 2 b: Do internal auditors who do not speak English as a first language fully

understand the *Add Value* term after translation in their local language?

The third objective of this study depicts the influences of host country *Relational Social*

Capital on internal auditors on the International Standards for the Professional Practice of

Internal Auditing. Consequently, the next questions based on this objective are:

Question 3: Does the *Relational Social Capital* in host country affect compliance with the

International Standards for the Professional Practice of Internal Auditing? This objective

and question can be broken down into nine sub-objectives and questions as follows:

Objective 3.1. This sub-objective examines the effect of *Family Social Capital* in

compliance with International Standards for the Professional Practice of Internal

Auditing, *Independence and Objectivity* standards number AS 1100. Its sub-question is as

follows:

Question 3. 1: Does the *Family Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding *Independence and Objectivity* standards number AS 1100?

Objective 3. 2: This sub-objective examines the effect of *Family Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standards number AS 1120 and its sub-question is as follows:

Question 3. 2: Does the *Family Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standards number AS 1120?

Objective 3.3. This sub-objective examines the effect of *Family Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standards number PS 2110 and its sub-question is as follow;

Question 3. 3: Does the *Family Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Governance* standards number PS 2110?

Objective 3. 4. This sub-objective examines the effect of *Friendship Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Independence and Objectivity* standards number AS 1100. Its sub-question is as follows:

Question 3. 4: Does the *Friendship Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standards number AS 1100?

Objective 3. 5. This sub-objective examines the effect of *Friendship Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standards number AS 1120. Its sub-question is as follows:

Question 3. 5: Does the *Friendship Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Individual Objectivity* standards number AS 1120?

Objective 3. 6. This sub-objective examines the effect of *Friendship Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standards number PS 2110 and its sub-question is as follows;

Question 3. 6: Does the *Friendship Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standards number PS 2110?

Objective 3. 7. This sub-objective examines the effect of *Personal Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Independence and Objectivity* standards number AS 1100 and its sub-question is as follows;

Question 3. 7: Does the *Personal Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standards number AS 1100?

Objective 3. 8. This sub-objective examines the effect of *Personal Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standards number AS 1120 and its sub-question is as follows;

Question 3. 8: Does the *Personal Social Capital* influence internal auditors from complying with International Standards for the Professional Practice of Internal Auditing, *Individual Objectivity* standards number AS 1120?

Objective 3. 9: This sub-objective examines the effect of *Personal Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standards number PS 2110 and its sub-question is as follows:

Question 3. 9: Does the *Personal Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Governance* standards number PS 2110?

5.4 Questionnaire

Many researchers use the survey as a main methodological strategy in scientific research. A questionnaire is a set of questions designed to be distributed to respondents in order to gather information that is useful for answering the research questions and meeting its objectives (Denscombe, 2014). Many scholars pointed out that there are several benefits from utilising questionnaires, for instance cost saving compared with other data collection approaches, and no direct interaction between the researcher and respondents (Hussey & Hussey, 1997; Babbie, 2001). However, there are disadvantages associated with using questionnaires. For example sometimes the response rate may be low, respondents may not complete and answer all sections in the questionnaires, or the quality of answering the questionnaire is poor (Denscombe, 2014). To solve such of issues, researchers should develop many communication skills in order to maximize the benefits from utilizing the questionnaire, such as have a personal connection with in organisations. Managers, or other

professional entities to help the researcher in distributing and collecting data (Burgess, 2001; Al-Hajji, 2003).

In regard to questionnaire design, the questions in each section of the questionnaire should be written clearly, not misleading or ambiguous to the respondents (Dillman, 1983). A questionnaire can be administered in several ways, for example, distributed in person, by post, telephone, or email. With a postal questionnaire, the researcher should attach a cover letter to the respondents and include a stamped addressed envelope to make sure that the questionnaire can be returned to the researcher without any additional cost to the respondents. This approach is not a complicated process, it is easy and simple and economic, but the disadvantage of this method is the low level of response, which on average is around 10% or below (Oppenheim, 2000).

Another way of collecting data is by phone. Although it is more expensive than the postal approach, it is less expensive than distributing questionnaire in person. Also it allows the researcher to contact the respondents directly and obtain full answers to all questions (Bell, 1999). Bryman (2004) outline that it is acceptable to distribute a questionnaire in a public area, or any suitable place. He also mentioned that one of the most useful approaches is to distribute and collect a questionnaire electronically, because this approach saves money and hopefully will obtain a higher level of response. In this study, most of the questionnaires were distributed in person, by email and the linked-in application, as an alternative method for distributing the questionnaires.

5.5 Data Collection

A questionnaire was used for collecting data in this study. The questionnaires were sent to internal auditors in various positions (CAE, director, manager, supervisory level, senior auditor, and entry level) to examine the impact of foreignness on compliance with the international standards in the professional practice of internal audit departments in Saudi Arabia. In order to get more responses to the questionnaire, formal permission was arranged from the Saudi Arabian Culture Bureau in London, clarifying that the questionnaire is purely for academic and scientific reasons. The questionnaire was pilot-tested and submitted to the Ethics Committee at the University of Hull, Hull University Business School and approved after some changes. The questionnaire was distributed to internal auditors in the Saudi Joint-stock market, The original draft of the questionnaire was designed in English and then translated into Arabic, the language of Saudi Arabia (Arabic). The reason why the researcher has chosen Saudi Arabia is because all independent variables can be implemented in this country; the formal language in Saudi Arabia is not the same as that of the standards, the business environment in Saudi Arabia has numerous successful American and European organisations, and the culture in Saudi Arabia, for instance loyalty to family, personal relationship, and friendship encouraged the researcher to implement the study in this country. The respondents were chosen from listed companies in Saudi Arabia. The main reason for selecting listed companies is because all listed companies have to have internal auditors, whereas non-listed companies they do not have too. Another reason why the researcher chose these respondents is because the number of listed companies is reasonable for data collection in three months, and the number of internal auditors is not huge, so the researcher could cover all auditors rather than choosing a sample technique. Furthermore, the variety of sectors, nature of industries, and location

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diversity give the researcher a chance to cover all communities around the Saudi regions. Therefore, the questionnaire was distributed to internal auditors in the Saudi Joint-stock market.

In addition to this, at the present time, several countries such as Egypt, Libya, Tunisia, Iraq, Yemen and Syria are suffering from instability as a result of the Arab Spring. Therefore, the researcher has selected Saudi Arabia because it is safe to conduct the research.

The first part of the questionnaire collected personal details including educational, English level, experience, professional, and positions information. The second part of the questionnaire was about language. Because the International Standards for the Professional Practice of Internal Auditing (the standards) were issued in English, the English language section was vital in this questionnaire. Two main issues were considered. The first one was *Understanding*, which examined the ability of internal auditors (for whom English language is not their mother tongue) to understand the Standards without translation to Arabic. The second was *Translation*, and examined how internal auditors can deal with the Standards through *Translation* when these standards are translated to the local language in Saudi Arabia. Both dimensions (*Understanding* and *Translation*) concentrate on the terms, *Residual Risk* and *Add Value* terms. The reason for selecting these professional terms was because these terms are among the most functional characteristics in internal audit and its standards. The third part of the questionnaire was about environmental factors particularly focusing on friendship, personal relationship, and loyalty to family as part of the culture dimension. The fourth part of the questionnaire was related to the International Standards for the Professional Practice of Internal Auditing, which covers, independence and

objectivity, individual objectivity, and *Governance*.

5.6   Summary and Conclusion

The chapter explained the research methods used to answer the questions and achieve the objectives of the current study. This chapter presented the research questions, which consisted of three main questions and nine sub-questions. Furthermore, it was explained that the main study approach was the quantitative method. This chapter also described the number of the scale that was used in the questionnaire, which is a 7-point Likert Scale. After that, the chapter discussed and explained the process that was used for data collection and why the researcher selected the study index. Moreover, the chapter presented the details of each section in the questionnaire, starting with demographic information, various types of social capital such as the linguistic dimension (which includes *Understanding* and *Translation*) and *Relational Social Capital* (which includes personal social capital, friendship social capital, and family social capital). The last section of the questionnaire was about the dependent variables, which were about the International Standards for the Professional Practice of Internal Auditing. This section focused mainly on the standards AS 1100, Independence and Objectivity, AS 1120 Individual Objectivity, and PS 2110 *Governance*. The last section in this chapter discussed details about the data collection location and sectors.

6. CHAPTER SIX: ANALYSIS, FINDINGS, AND DISCUSSION

6.1 *Introduction*

The chapter begins with a demographic analysis, including gender, nationality, years of experience, and number of auditors and their positions. This chapter presents the findings and relationships between constructs and their measures. Before presenting the analysis and findings of the main data, the researcher conducted two pilot studies and presented their outcomes. This study uses two forms of statistical software. The first was for the analysis of demographic information such as age, gender, education level, English level, total years of experience, positions of internal auditors, and obtaining the CIA (Certified of Internal Auditor) qualification. The second software was for analysis of the main data. This study utilises SPSS (Statistical Package for the Social Sciences) was used for the first purpose, demographic information. This statistical software has been known in the statistics field for a long time. It was initially used as a programming language for statistical analysis purposes. After that, it spread to a more advanced level and was improved so that it has since become a powerful application. In addition, this application has advanced tools that present and explain further details, such as charts and graphics, and has a mass of statistical functions that are useful for analysis and presenting data details. The statistical abilities of the Statistical Package for the Social Sciences provide a wide range of basic presentations for complicated analysis.

The chapter also presents the main statistical analysis software; Partial Least Squares Structure Equation Modelling (PLS-SEM), used to analyse the relationships between

variables and constructs. In order to start the process of PLS-SEM analysis, there are two main steps. The first step is to examine the measurement model, which includes reflective measurement or formative measurement or sometimes both types of measurement used in particular cases. After that, if the result of the first step is fulfilled, then the researcher has to move to the next step, which is considering the structural model. Following these analysis, moves to other aspects of analysis, such as reliability, which includes internal consistency reliability (composite reliability). It is usually interpreted in the same way as Cronbach's alpha. After this section, the indicator reliability will be presented. Indicator reliability is the square of a standardized indicator's outer loading. It reflects the variation between items under one construct and is represented to as the variance extracted from the item. After reliability analysis the validity analysis is the next. The chapter shows many validity tests for example, convergent validity and discriminant validity. Convergent validity is the extent to which a measure correlates positively with alternative measures of the same construct. Utilizing the domain sampling model, indicators of a reflective construct are processed in different ways to measure the same construct. Thus, the items that are measures of a certain construct must converge a great amount of variance. The next validity test is discriminant validity. Discriminant validity is the extent to which a construct really differs from other constructs by empirical standards. One way of evaluating discriminant validity is by testing the cross loadings of the indicators. Specifically, an indicator's outer loading on the related construct should be higher than all of its loadings on other constructs, for instance the cross loadings. The existence of cross loadings that exceed the indicators' outer loadings reflects a discriminant validity problem.

The second approach to discriminant validity is the Fornell-Larcker criterion, which is a more conservative method of evaluating discriminant validity. It makes a comparison of the square root of the AVE values with the latent variable correlations. After that, the chapter discusses collinearity. Collinearity appears in the situation of a structural model assessment when two constructs are highly correlated. If the level of collinearity is very high (a VIF value of 5 or higher), consideration should be given to removing one of the corresponding indicator(s). The chapter then presents the result of path coefficients. The path coefficients have standardized values between -1 and + 1. Assessed path coefficients around + 1 represent strong relationships (and vice versa for negative values) that are usually statistically significant. This is followed by consideration of the R square. The most frequently used measure to assess the structural model is the coefficient of determination (R square value). This coefficient is a measure of the model's predictive accuracy and is calculated as the squared correlation between a specific dependent construct's actual and expected values. After conducting all analyses, the chapter will present outcomes and link them to previous literature to note similarities and differences.

6.2 Demographic Analysis

The first part of the current study is about demographic information. This part includes several questions with respect to the status.

The total number of collected questionnaires for this study was 349. The total number of companies in the Saudi Stock Market is 166, which includes 16 sectors. Banks & Financial Services is one of the most important sectors, consisting of 12 banks (that account for around 7% of the Saudi Stock Market). This sector includes well-known banks in Saudi Arabia, such as, Saudi British Bank, Saudi Investment Bank, Saudi Hollandi Bank, Bank

Albilad, Bank Aljazira, Banque Saudi Fransi, Alinma Bank, Al Rajhi Bank, Arab National Bank, Samba Financial Group, National Commercial Bank, and Riyad Bank.

Petrochemical Industries have 14 companies; this sector also represents about 8% of the total Saudi Stock Market. The companies in this sector are; Methanol Chemicals Co., National Petrochemical Co., Saudi Basic Industries Corp., Saudi Arabia Fertilizers Co., National Industrialization Co., Alujain Corp., Nama Chemicals Co., Saudi Industrial Investment Group, Sahara Petrochemical Co., Yanbu National Petrochemical Co., Saudi International Petrochemical Co., Advanced Petrochemical Co., Saudi Kayan Petrochemical Co., Rabigh Refining and Petrochemical Co.

The Cement sector consists of 13 companies which is not far from banks and Petrochemical Industries. The organizations in this sector are, Hail Cement Co., Najran Cement Co., City Cement Co., Northern Region Cement Co., Umm Al-Qura Cement Co., Arabian Cement Co., Yamama Cement Co., Saudi Cement Co., Qassim Cement Co., Southern Province Cement Co., Yanbu Cement Co., Eastern Province Cement Co., Tabuk Cement Co., and Al Jouf Cement Co.

The Retail sector consists of 13 companies as well, which are, Abdullah Al Othaim Markets Co., Mouwasat Medical Services Co., United Electronics Co., Dallah Healthcare Holding Co., National Medical Care Co., Saudi Marketing Co., Al Hammadi Company for Development and Investment, Saudi Company for Hardware, Middle East Healthcare Co., Lazurde Company for Jewelry, Saudi Automotive Services Co., National Agricultural Marketing Co., Fitaihi Holding Group, Jarir Marketing Co., Aldrees Petroleum and

Transport Services Co., Fawaz Abdulaziz Alhokair Co., and Alkhaleej Training and Education Co.

The Energy & Utilities sector has only two companies, which comprise 1% of the total Saudi Stock Market. These companies are; National Gas and Industrialization Co., and Saudi Electricity Co.

Agriculture & Food Industries sector has 16 companies; Savola Group, Wafrah for Industry and Development Co., Saudia Dairy and Foodstuff Co., Almarai Co., Anaam International Holding Group, Halwani Bros. Co., Herfy Food Services Co., Saudi Airlines Catering Co., National Agricultural Development Co., Qassim Agricultural Co., Tabuk Agricultural Development Co., Saudi Fisheries Co., Ash-Sharqiyah Development Co., Al-Jouf Agricultural Development Co., Bishah Agricultural Development Co., and Jazan Development Co.

Telecommunication & Information Technology. This sector has five companies, Saudi Telecom Co., Etihad Etisalat Co., Mobile Telecommunication Company Saudi Arabia, and Etihad Atheeb Telecommunication Co.

Insurance is the biggest sector in the Saudi Stock Market, representing about 21% in regard to the number of organizations. It consists of 35 companies, which are; The Company for Cooperative Insurance, MetLife AIG ANB Cooperative Insurance Co., Aljazira Takaful Taawuni Co., Malath Cooperative Insurance and Reinsurance Co., The Mediterranean and Gulf Insurance and Reinsurance Co., Allianz Saudi Fransi Cooperative Insurance Co.,

Salama Cooperative Insurance Co., Saudi United Cooperative Insurance Co., Arabian Shield Cooperative Insurance Co., SABB Takaful Co., Sanad Cooperative Insurance Co., Saudi Arabian Cooperative Insurance Co., Saudi Indian Company for Cooperative Insurance, Gulf Union Cooperative Insurance Co., Alahli Takaful Co., Al-Ahlia Insurance Co., Allied Cooperative Insurance Group, Arabia Insurance Cooperative Co., Trade Union Cooperative Insurance Co., Al Sagr Cooperative Insurance Co., United Cooperative Assurance Co., Saudi Re for Cooperative Reinsurance Co., Bupa Arabia for Cooperative Insurance Co., Weqaya Takaful Insurance and Reinsurance Co., Al-Rajhi Company for Cooperative Insurance, ACE Arabia Cooperative Insurance Co., AXA Cooperative Insurance Co., Gulf General Cooperative Insurance Co., Buruj Cooperative Insurance Co., Al Alamiya for Cooperative Insurance Co., Solidarity Saudi Takaful Co., Wataniya Insurance Co., Amana Cooperative Insurance Co., Saudi Enaya Cooperative Insurance Co., and Alinma Tokio Marine Co.

The Multi-Investment sector includes seven companies, and this sector accounts for around 4% of the total company number. These companies are, Saudi Arabia Refineries Co., Middle East Paper Co., Al-Ahsa Development Co., Saudi Industrial Services Co., Aseer Trading, Tourism and Manufacturing Co., Al-Baha Investment and Development Co., and Kingdom Holding Co.

Industrial Investment has the same number of companies (14) that Petrochemical Industries has. These companies are; Takween Advanced Industries Co., Middle East Paper Co., Basic Chemical Industries Co., Saudi Arabian Mining Co., Astra Industrial Group, Al Sorayai Trading and Industrial Group, Al Hassan Ghazi Ibrahim Shaker Co., Saudi

Pharmaceutical Industries and Medical Appliances Corp., The National Company for Glass Industries, Filing and Packing Materials Manufacturing Co., National Metal Manufacturing and Casting Co., Saudi Chemical Co., Saudi Paper Manufacturing Co., Al Abdullatif Industrial Investment Co., and Saudi Industrial Export Co. Building & Construction, this sector has 16 companies, United Wire Factories Co., Bawan Co., Electrical Industries Co., Al Yamamah Steel Industries Co., Mohammad Al Mojil Group, Saudi Steel Pipe Co., Abdullah A. M. Al-Khodari Sons Co., Saudi Ceramic Co., National Gypsum Co., Saudi Cable Co., Saudi Industrial Development Co., Saudi Arabian Amiantit Co., Arabian Pipes Co., Zamil Industrial Investment Co., Al-Babtain Power and Telecommunication Co., Saudi Vitrified Clay Pipes Co., Middle East Specialized Cables Co., and Red Sea Housing Services Co.

Real Estate Development. This sector has eight companies and represents about 5% of the total Saudi Stock Market. These companies are; Saudi Real Estate Co., Taiba Holding Co., Makkah Construction and Development Co., Arriyadh Development Co., Emaar The Economic City, Jabal Omar Development Co., Dar Alarkan Real Estate Development Co., Knowledge Economic City, and Alandalus Property Co.

Transport has four companies and represents about 2% of the total Saudi Stock Market. These companies are; National Shipping Company of Saudi Arabia, Saudi Ground Services Co., Saudi Public Transport Co., Saudi Transport and Investment Co., and United International Transportation Co.

The Media and Publishing sector has three companies and represents about 2% of the total Saudi Stock Market. These companies are; Tihama Advertising and Public Relations Co., Saudi Research and Marketing Group, and Saudi Printing and Packaging Co.

Hotel & Tourism has four companies and represents about 2% of the total Saudi Stock Market. These companies are; Altayyar Travel Group, Abdulmohsen Alhokair Group for Tourism and Development, Dur Hospitality Co., and Tourism Enterprise Co.

The following table 2 shows nationality details;

Table 3 Nationality details

		Frequency	Percent
Valid	British	2	.6
	Saudi	157	45.0
	Other	190	54.4
	Total	349	100.0

(Source: Author)

The total with Saudi nationality is 157, which accounts for 45%, whereas the British nationality, with two respondents, accounts for less than 1%. The other nationality apart from British and Saudi is 190 internal auditors, which represents 54%.

In regard to the mother tongue, the following table 3 illustrates the details.

Table 4 Mother tongue details

		Frequency	Percent
Valid	English	9	2.6
	Arabic	267	76.5
	Other	73	20.9
	Total	349	100.0

(Source: Author)

For the majority of respondents, the mother tongue was Arabic. These respondents represent 76.5% of the total questionnaires, which is 267 internal auditors. English as the mother tongue had the lowest number of response, only 9 which represent 2.6%. Other respondents who did not speak Arabic as a native language and who also did not speak English as a mother tongue numbered 73, which accounts for 20.9%.

In terms of gender, the following Table 4 and pie chart (Figure 5) show the percentage of both genders.

Table 5 Gender

Gender

		Frequency	Percent
Valid	Male	337	96.6
	Female	12	3.4
	Total	349	100.0

(Source: Author)
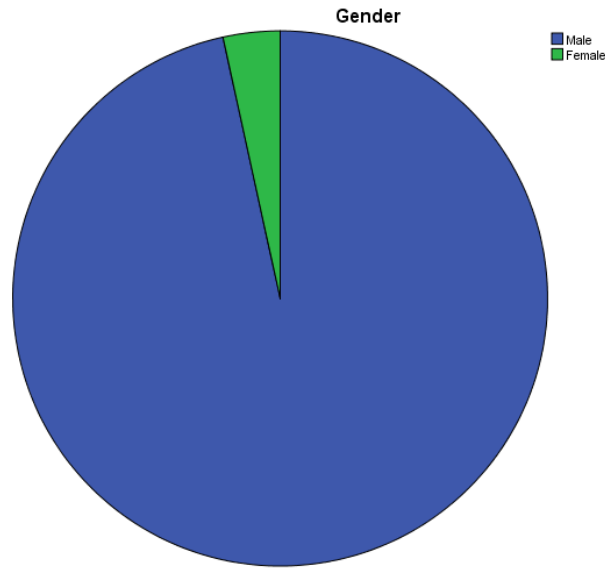
Figure 8 Gender

This study was distributed to both men and women in the Saudi Stock Market. Males constituted the largest number of respondents: 337 individuals, which represents 97% of the total questionnaires. Females constituted only 12 (around 3%).

The age of the respondents of the current study varied. The following table 5 and figure 6 present the age categories and percentage in each category.

Table 6 Age

Age

		Frequency	Percent
Valid	under 25	3	.9
	25 to less than 35	146	41.8
	35 to less than 45	120	34.4
	45 and over	80	22.9
	Total	349	100.0

Figure 9 Age
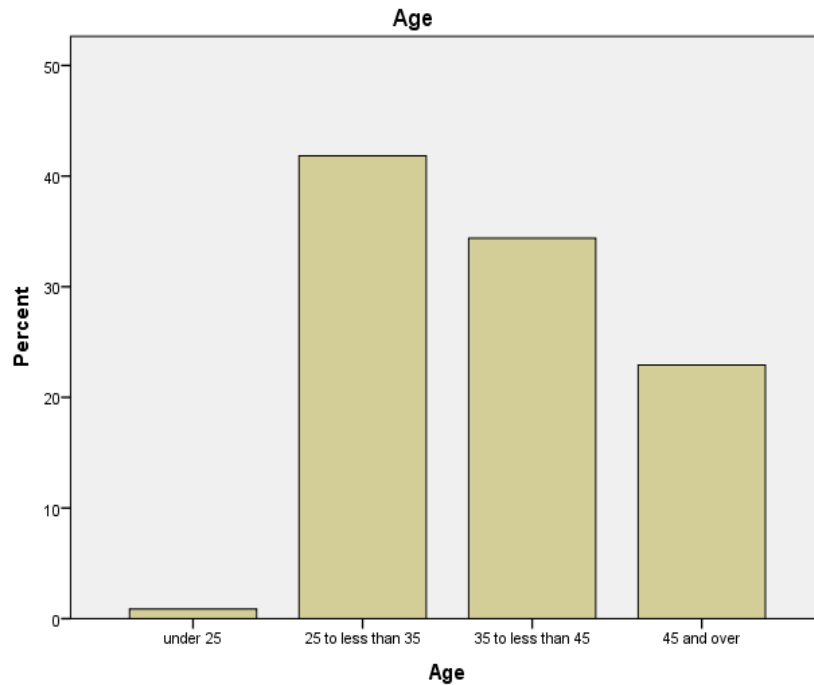
(Source: Author)

Most respondents were at least 25 years old and younger than 35 years old. This category had 146 internal auditors, accounting for 42% of total respondents. The second largest category was between 35 years old and younger than 45 years old. The number of respondents in this category was 120 and represented 34% of total questionnaires. The third largest age category was 45 years old and over, which contained about 80 internal auditors and accounted for 23%. The lowest number of respondents was under 25 years old, with only three individuals, representing around 1%.

In terms of English proficiency level, the current research had three categories of respondents. The following Table 6 and pie chart (Figure 7) represent the respondents' details.

Table 7 English Level

		Frequency	Percent
Valid	Advanced	227	65.0
	Intermediate	107	30.7
	Beginner	15	4.3
	Total	349	100.0

(Source: Author)

Figure 10 English Level
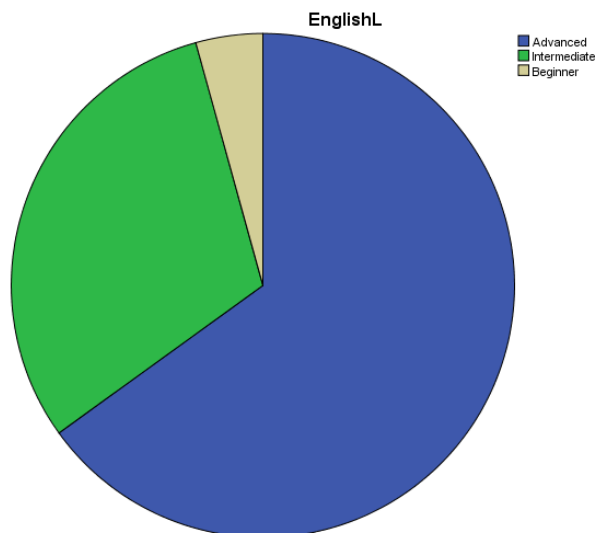
(Source: Author)

The largest number of internal auditors was at the advanced level, which accounted for 65% and 227 respondents. The second largest number of respondents in terms of English level was intermediate, representing 31% and 107 internal auditors. The lowest number of respondents was 4%, which represented the beginner level, with only 15 questionnaires.

In regard to positions of internal auditors, there are different levels of internal audit positions inside each organisation. The following table 7 illustrates all the positions among respondents.

Table 8 Number of respondents

		Frequency	Percent
Valid	Management level (CAE)	115	33.0
	Supervisory level	70	20.1
	Senior auditor	86	24.6
	Entry level, internal auditor	72	20.6
	Others	6	1.7
	Total	349	100.0

(Source: Author)

The majority of internal auditors were at the management level, for instance, Chief Audit Executive, Director, or Manager. This category contained 115 internal auditors, which accounted for around 33%. The next largest number of respondents in terms of level of internal audit positions was for senior auditors. The number of respondents at this level was 86 and the accounted for 24.6% of total questionnaires. Entry level was the third level in terms of total number of respondents, with 72 internal auditors, 20.6%. The second-last position level in the internal audit was the supervisory level, with 70 respondents, which is close in number to the previous level and accounts for 20.1%.

Internal auditors had a variety of experience in internal auditing. The following Table 8 and pie chart (Figure 8) represent various years of experience for internal auditors;

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Table 9 Experience of internal auditors

		Frequency	Percent
Valid	1 to less than 5 years	117	33.5
	5 to less than 10 years	105	30.1
	10 years and over	127	36.4
	Total	349	100.0

(Source: Author)

Figure 11 Experience of internal auditors
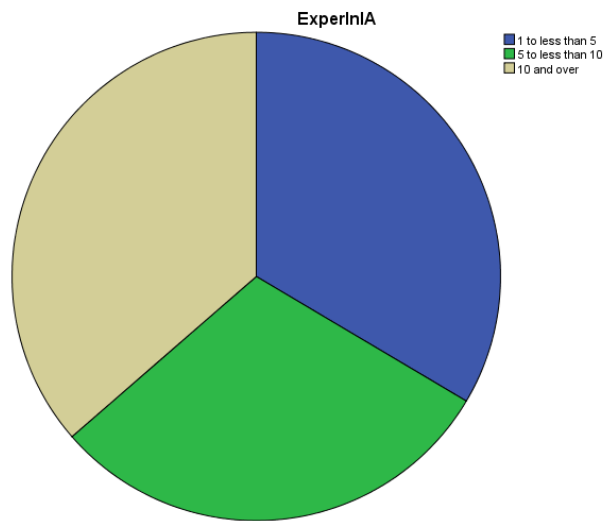
(Source: Author)

In total, the current study included 349 internal auditors and the largest number of internal auditors who had experience of 10 years and over. The number of internal auditors in this category was 127, which represents 36.4%. The second level of experience was internal auditors who had worked between one year and less than five years; this is 117 internal

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auditors, and the percentage for this category is 33.5%. The last category was internal auditors who had worked from five years to less than 10 years; this type of experience was found in 105 respondents and accounting for 30.1%.

Internal auditors in all organisations had attended professional training courses, but not all auditors had the same number of opportunities to attend, nor had they attended an equal number of professional courses. The following Table 9 and pie chart (Figure 9) represent the number of professional training courses and number of respondents.

Table 10 Professional training courses

		Frequency	Percent
Valid	Never	56	16.0
	1 to 5	175	50.1
	6 to 10	54	15.5
	Over 10	64	18.3
	Total	349	100.0

(Source: Author)

Figure 12 Professional training courses
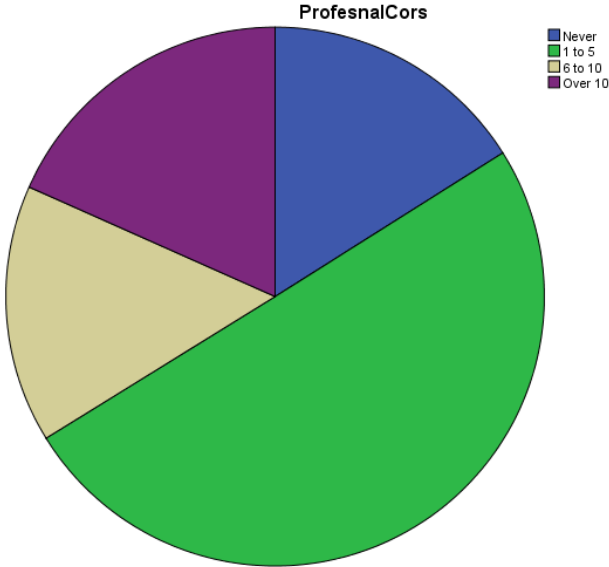
First, the table illustrates that 16% of the total internal auditors (56 respondents) had not taken any professional training courses. However, the most well-trained internal auditors had attended more than 10 professional courses in internal auditing. These 64 internal auditors accounted for 18.3%. Most internal auditors (175 individuals) had attended between one and five training courses, constituting 50.1%. Internal auditors who had attended from six to 10 professional training courses numbered 54 and accounted for 15.5%.

In regard to the Certified Internal Auditor (CIA) designation, some internal auditors had obtained the CIA and others had not. The following Table 10 and bar chart (Figure 10) present more details;

Table 11 Number of Certified Internal Auditors (CIA)

		Frequency	Percent
Valid	Yes	45	12.9
	No	172	49.3
	Preparing for the exam	132	37.8
	Total	349	100.0

(Source: Author)

Figure 13 Number of Certified Internal Auditors (CIA)
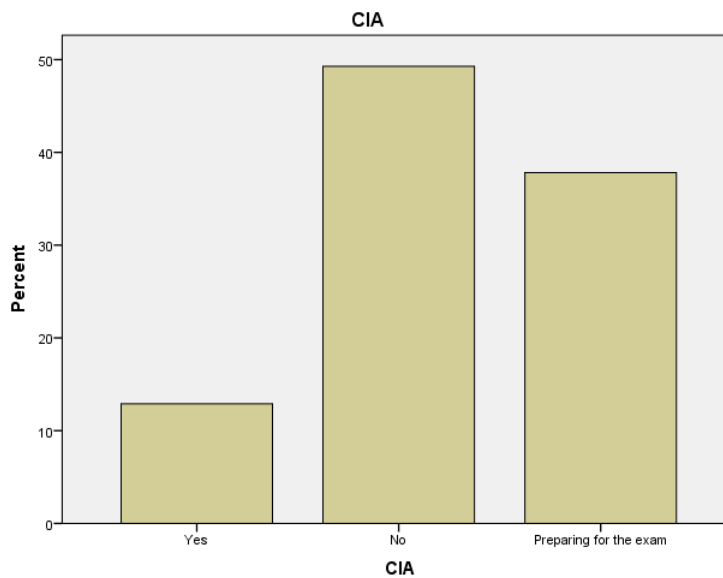
(Source: Author)

The largest number of internal auditors in this study had not obtained the CIA. These internal auditors numbered 172 and accounted for 49.30%. The second largest number of internal auditors was 132 respondents who were preparing for the CIA exam. These internal auditors represented 37.8%. The lowest number of internal auditors was 45 who had obtained the CIA; these internal auditors accounted for only 12.9%.

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The fact that so many internal auditors had not obtained the Certified Internal Auditors (CIA) qualification may be a factor that reduces compliance with the international Standards for the Professional Practice of Internal Auditing, as auditors looking this qualification may stick with their beliefs and traditional values rather than the standards' values and concepts. Furthermore, internal auditors who have the CIA are likely to be aware and understanding of the benefits of compliance with the standards, compared with non-professional auditors.

In terms of educational level, responded had a variety of qualification. The following Table 11 shows all the education levels.

Table 12 Educational Level

Educational level		Frequency	Percent
Valid	High School	6	1.7
	Diploma	9	2.6
	Bachelor	214	61.3
	Master	114	32.7
	PhD	6	1.7
	Total	349	100.0

(Source: Author)

It can be observed from the table above that most internal auditors had obtained a bachelor's degree; the number of auditors who had done so was 214 and they represented 61.30% of the total respondents. The lowest numbers of respondents in terms of educational level had high school certificates and PhDs, which each accounted for six respondents 1.7%. Auditors with master's degrees were second largest number of

respondents with 114 forming 32.7% of the total number of internal auditors. Finally, the second lowest number of respondents was these with diploma. These individuals represented 2.6% of respondents with only nine internal auditors.

In terms of experience, not all internal auditors started their work with an accounting background. The following Table 12 and bar chart (Figure 11) show the varying experiences for all respondents.

Table 13 Experience in other fields

		Frequency	Percent
Valid	Management from 1 to less than 5	15	4.3
	Management from 5 to less than 10	19	5.4
	Management 10 and over	12	3.4
	Finance from1 to less than 5	14	4.0
	Finance from 5 to less than 10	6	1.7
	Finance from 10 and over	7	2.0
	Accounting from 1 to less than 5	40	11.5
	Accounting from 5 to less than 10	24	6.9
	Accounting from 10 and over	52	14.9
	External Audit from 1 to less than 5	34	9.7
	External Audit from 5 to less than 10	33	9.5
	External Audit 10 and over	13	3.7
	Other from 1 to less than 5	15	4.3
	Other from 5 to less than 10	11	3.2
	Other from 10 and over	20	5.7
	Not working	34	9.7
	Total	349	100.0

(Source: Author)

Figure 14 Experience in other fields

Experience in other fields

■ Management	■ Finance	■ Accounting	■ External Audit	■ Other	■ Not working
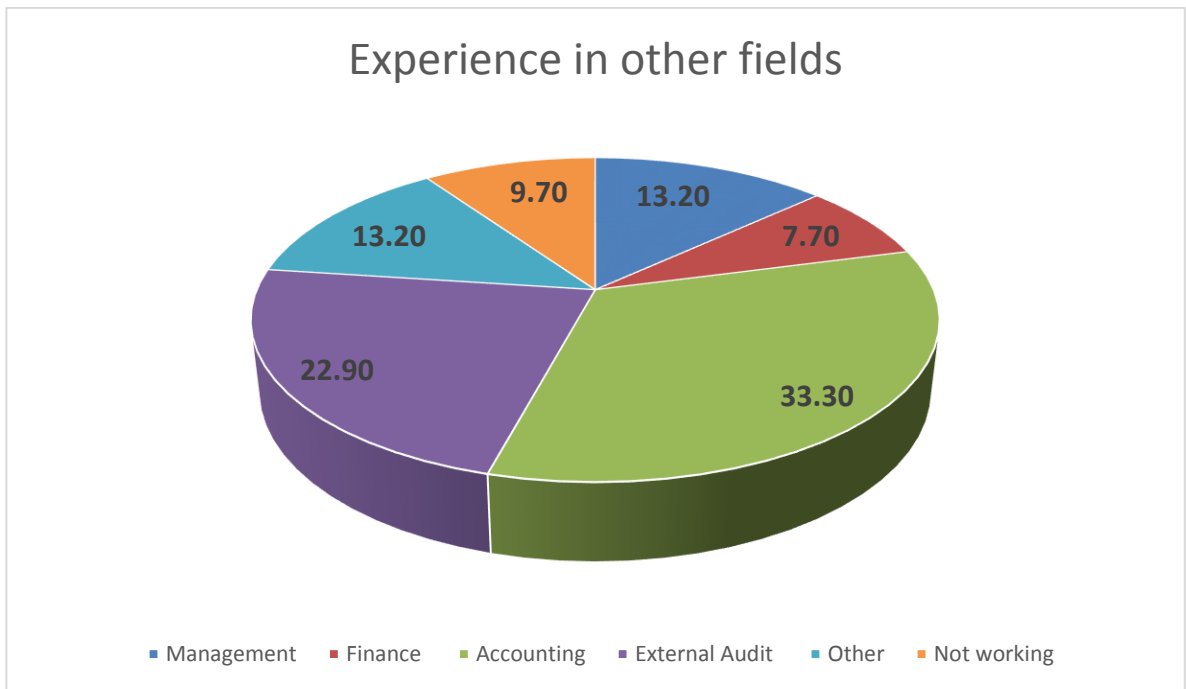
(Source: Author)

Figure 15 Experience in other fields

(Source: Author)

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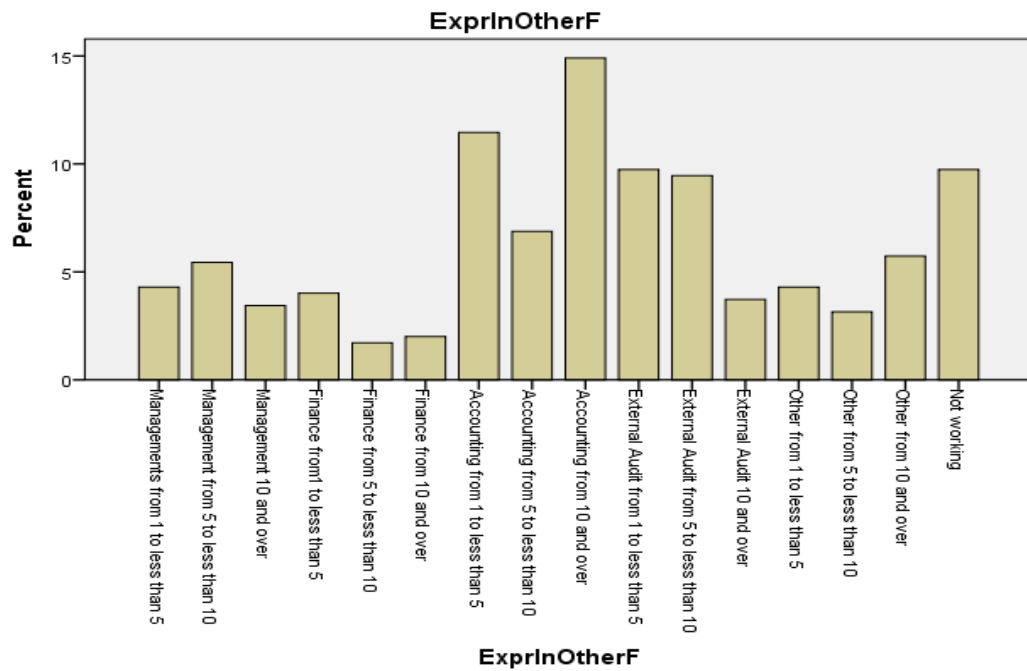
In terms of experience, the highest number was of internal auditors who worked as accountants for 10 years and more. These respondents accounted for 14.9% of questionnaires and numbered 52. The second largest number of respondents can be found in the category of internal auditors who worked as accountants from one year to less than five years, consisting of 40 internal auditors and accounting for 11.5% of respondents. The third largest number of respondents contains internal auditors who worked as external auditors from one year to less than five years, and from five years to less than 10 years.

These categories account for 9.7% and 9.5% (34 and 33 respondents), respectively. The lowest number of respondents had a finance background from five years to less than 10 years, and 10 years and over.

The remaining respondents submitted the second lowest number of questionnaires, including management (from one year to less than five years, from five years to less than 10 years, and 10 years and over), finance from one year to less than five years, accounting from five years to less than 10 years, external auditing for 10 years and over, and other disciplines apart from management, accounting, finance, and external audit (from one year to less than five years, five years to less than 10 years, and 10 years and over). It can also be seen from the table and bar chart that many respondents did not have prior experience in the fields and began directly in the internal audit profession. These respondents accounted for 34 internal auditors, representing 9.7%.

6.3 *SEM (Structural Equation Modelling)*

Structural Equation Modelling (SEM) has become a very common statistical approach in various domains, especially in business research (Sarstedt et al., 2014). There are two main

techniques of Structural Equation Modelling: CB-SEM (Jöreskog, 1978) and PLS-SEM (Lohmöller, 2013). CB-SEM has been a very popular statistical application among researchers over many years. However, PLS-SEM is widely used by many scholars particularly in strategic management, marketing, and management information system in recent years (Hair et al., 2012). Each approach has his own characteristics and these features make them appropriate for various kind of research in many disciplines. CB-SEM, is utilised to confirm or reject hypotheses. This technique concerns how well a suggested theoretical framework is able to evaluate the covariance matrix for a sample dataset. In contrast, the variance-based PLS-SEM method is basically useful in exploratory research to develop hypotheses. This type of method focuses more on dependent variables, especially when testing the model.

SEM is a second-generation multivariate data analysis method. Multivariate data analysis employs statistical methods in order to analyze a number of variables at the same time, these variables can measure factors associated with individuals, companies, events, activities, situations, and so forth. SEM is can be used either in exploratory mode, to develop theory or in confirmatory mode, to test theory. SEM entails visual depiction of hypotheses and relationships among the investigated variables, using path diagrams. Such models comprise four basic elements; (1) constructs, (2) measured variables, (3) relationships, and (4) error terms. Constructs are latent or unobserved variables that are not directly measured. They are showing in path models as circles or ovals. Measured variables are the ones that are directly observed (raw data) commonly termed indicators or manifest variables, which denote by path models rectangles. Relationships hypothesised associations between variables shown by single-headed arrows pointing in the direction of causal or prediction. Error terms represent the unexplained variance when path models are estimated

and are shown as circles connected to the (endogenous) constructs and (reflectively) measured variables by single-headed arrows.

One of the critical advantages of using PLS-SEM is the facility to solve problematic modelling cases that happen frequently in social science research (Robins, 2012; Hair et al., 2013). For instance, PLS-SEM is useful and effective in evaluating a path model that contain several constructs and indicators, particularly when the sample size is not big. In these circumstances, PLS-SEM obtains higher statistical power and research convergence compared to CB-SEM (Reinartz et al., 2009; Henseler & Chin, 2010). Furthermore, PLS-SEM allows more flexibility to researchers to specify the relationships between constructs and their items, whether the relation is reflective or formative (Hair Jr et al., 2016). Moreover, using PLS-SEM does not require particular assumptions, for example, normal data distribution (Bird et al., 2002).

In terms of finding and assessing PLS-SEM, there are two steps. The first step is to examine the measurement model, which includes reflective measurement or formative measurement, or sometimes both measurements are used in particular causes. Thus, The first is evaluation of the quality of the measurement models, according to the relevant criteria for the model type. Reflective measurement models are evaluated in terms of reliability and validity, whereas formative measurement models are evaluated by checking the convergent validity of measures the significance and relevance of the indicators, as well as collinearity among them. After that, if the result of the first step is satisfactory then the researcher has to move to the next step, which is assessing the structural model (Hair Jr et al., 2016). Only if the outcomes for the measurement model are satisfactory is it appropriate

to proceed to the second step, which is evaluating the relationships in the structural model. This is done by testing the significance of path coefficients and the coefficient of determination R square value. According to the particular model and research purpose, it may be desirable also use additional advanced analyses. Examples of these techniques includes mediating effects, moderating effects, multi group analysis, unobserved heterogeneity, impact-performance matrix analysis, or common methods variance). Thus, stage one basically tests the measurement theory, and stage two concentrates more on whether the relationship structure is significant and meaningful, and also examining hypotheses. PLS-SEM, like other analysis techniques, is based on rules of thumb to assess the findings of model evaluation (Götz et al., 2010; Henseler & Chin, 2010; Hair Jr et al., 2016). These rules of thumb depend on whether the measurement is reflective or formative or both.

6.4   Pilot Study

The pilot study is the phase that comes before the main data collection period. The pilot study is like a pre-test concerned with the research quality. The pilot study is a practical phase that applies the first run of the questionnaire to a small group of participants. By this means the researcher can clarify any unclear questions or ambiguous statements or points before conducting the main data collection. The researcher can use this feedback to improve the questionnaire before the final version. Sperling et al. (2003) claimed that a pilot study is like a dress rehearsal in an opera house or a theatre before the main show is conducted.

The first pilot study was carried out in the University of Hull. The sample consisted of 41 students, most of whom were studying accounting at Master level at Hull University Business School. The pilot study was intended to examine the impact of foreignness on compliance with the international internal auditing standards. The study assumes there are several factors that affect compliance with the standards, such as language and social relations.

6.4.1 First pilot study

In terms of the language variable, the study adopts *Understanding* and *Translation* dimensions as the main factors that represent language. With regard to the Standards, *Residual Risk* is one of the specialist terms that was examined in order to see if internal auditors could understand specialist terms in the home and host country languages. After distributing the questionnaires, the results showed that there is a positive relationship between language (*Understanding*) of the *Residual Risk* term, $r= .471$, p (2-tailed) $<.01$, and for translation $r=.620$, p (2-tailed) $<.01$. Thus, the lower the level of language proficiency of internal auditors, the less their understanding of specialist terms of the Standards in the home and host country languages. From the social relations perspective, the results indicate that there is a significant relation between personal relationship and compliance with independence and objectivity, $r= .320$, p (2-tailed) $<.05$. So, the higher the level of personal relationship, the lower the compliance with the *Independence and Objectivity* standard. Moreover, the results indicate that there is also a significant relationship between personal relationship and compliance with the *Governance* standard, $r= .437$, p (2-tailed) $<.01$.

Although the study showed significant relationships, some assumed relations were not supported; for instance, the relations between loyalty to family and friendship and compliance with the standards. After considering the sample nationality, it was found that students from China comprised the greater portion of the sample and, the structural characteristics of the Chinese and Saudi Arabia environment are different. In addition to this, most of the sample did not have experience in the work field at all.

With regard to reliability, several factors in this study were not reliable. For example, for the *Understanding* dimension, the Cronbach's $\alpha= .336$ and for *Individual Objectivity* the Cronbach's $\alpha=.186$. Therefore, it was decided to work on reliability to obtain a good level of reliability. One of the main helpful factors that helped in achieving a higher level of reliability was the comments received from the Business School Research Ethics Committee. For example, some questions contained negatives and some were not clear enough. After considering all the notes, a second pilot study was run focusing more on internal auditors.

6.4.2 Second pilot study

After running the second pilot study, the results showed a much higher level of reliability compared with the first pilot study. For example, the Cronbach's $\alpha= .636$ for the *Understanding* factor, while it was .336 in the first pilot study.

In addition to this, the Cronbach Alpha for the personal relations factor in the first pilot study was .650 and after running the second pilot study the Cronbach's $\alpha= .818$. Also, the reliability of the *Add Value* term in the first pilot study was very low, .209 but after

considering question design it improved to .841. Furthermore, there was a significant improvement of the reliability of *Independence and Objectivity* and *Individual Objectivity* in the second pilot study, they were both originally α under.210 and improved to over .720.

All in all, most factors reached a good level of reliability in the second pilot study. Although the reliability in the second pilot study was much better, the correlations between some variables were low in general. For example, the relationship between language and the *Residual Risk* term in the first study was more significant compared with the second one. After careful consideration of the reason for this, it seemed that many of the second study sample were CIAs, Certified Internal Auditors. Thus, their ability to understand specialist terms was high, whether in the Standards' home language or host country language. However, the relationship between the same variables was still significant in the second study, $r = .434$, p (2-tailed) $<.05$.

With regard to the social relations dimension, the findings of the second pilot study showed a more significant relationship between Personal Relations and Individual Objectivity, $r = .397$, p (2-tailed) $<.05$, whereas the result in the first study showed no significant relationship. $r = .256$, p (2-tailed) .106. The reason behind this may have been due to the experience factor, which was not available in the first pilot study.

Moreover, the first study showed no significant relation between loyalty to family and Individual Objectivity. However, the case was different in the second pilot study. Because most of the respondents in the second study were from an Arabic background, the Saudi environmental structure affected the internal auditors' decisions and compliance with the

Standards. For instance, while the first study showed no significant relationship between loyalty to family and the Standards, the second study showed a significant relationship between them. *r* = .380, *p* (2-tailed) <.05.

6.5   Reliability

Mardia and Jupp (2009) define reliability as the range to which an evaluating instrument—for instance, the measurement of intelligence—provides consistent results, because reliability deals with consistency. Furthermore, self-consistency is never perfect and is a matter of degree (Oppenheim, 2000).

6.5.1 Internal Consistency Reliability (Composite Reliability)

This study has eleven latent variables reflected in the measurement model (LU, LT, CPR, CLF, CFR, INFO, RR, OBJTV, INDP, and GOV). The traditional standard for internal consistency is Cronbach's alpha, which provides on assessment of reliability based on the inter-correlations of the observed indicator variables. One of the assumptions of Cronbach's alpha is that all indicators are similarly reliable, for instance all indicators have the same outer loading on the same construct. However, PLS-SEM arranges the indicators based on their separate reliability. Furthermore, Cronbach's alpha is sensitive to the number of items in the scale and normally has a tendency to undervalue the internal consistency reliability. For example, it can be used as a conservative measure of internal consistency reliability. In regard to the population limitation with Cronbach's alpha, it is more suitable to utilize a different measure of internal consistency reliability, which is termed composite reliability (Pc). The composite reliability ranges between 0 and 1, with

higher values indicating higher levels of reliability. It is usually interpreted in the same way as Cronbach's alpha. Specifically, composite reliability values of 0.60 to 0.70 are acceptable in exploratory research (Nunally & Bernstein, 1994).

Table 13 & Figure 12 illustrate the composite reliability values for all variables, LU, LT, CPR, CLF, CFR, INFO, RR, OBJTV, INDP, and GOV.

Table 14 Composite reliability value

	Composite Reliability
(D) ADV	0.792
(D) GOV	0.900
(D) INDP	0.908
(D) OBJTV	0.880
(D) RR	0.858
(I) Information	0.750
(P) CFR	0.869
(P) CLF	0.863
(P) CPR	0.852
(P) LT	0.907
(P) LU	0.753

(Source: Author)

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Figure 16 Composite Reliability
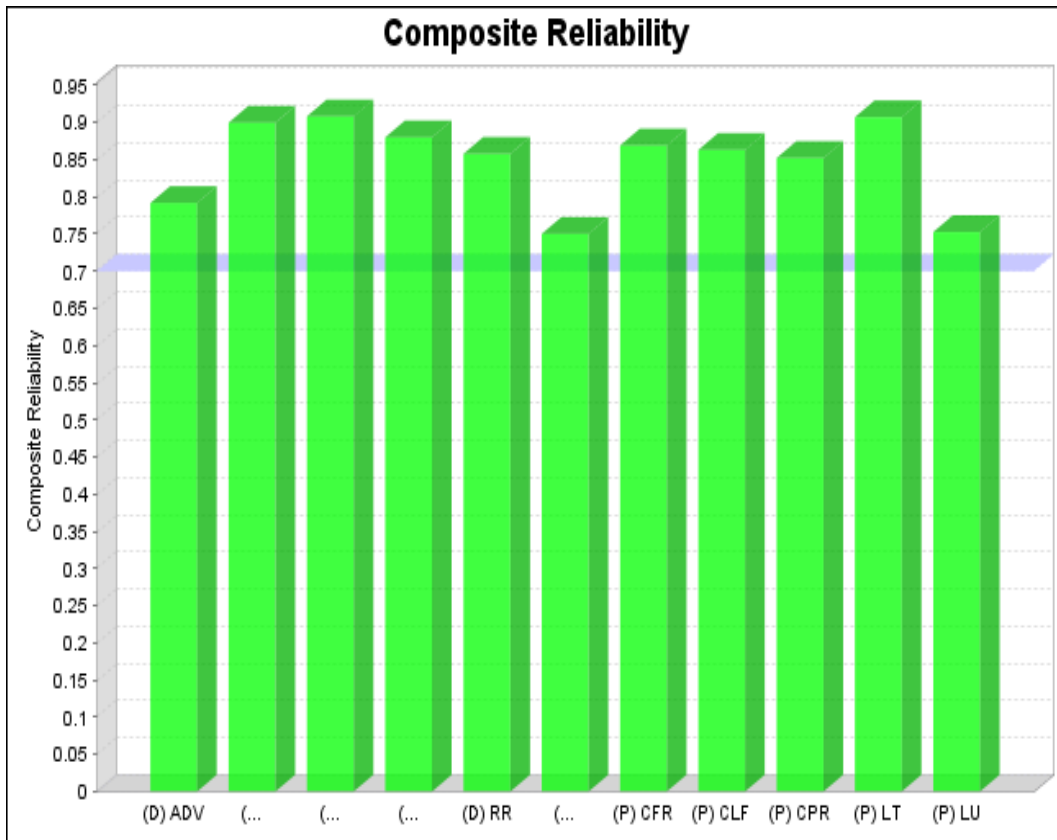
(Source: Author)

It can be observed from the above Table 13 and Figure 12 that the composite reliability values of 0.753 (LU), 0.907 (LT), 0.852 (CPR), 0.863 (CLF), 0.869 (CFR), 0.750 (Info.), 0.858 (RR), 0.880 (OBJTV), 0.908 (INDP), 0.900 (GOV), and 0.792 (ADV) all show high levels of internal consistency reliability.

6.5.2 Indicator Reliability

Indicator reliability is the square of a standardized indicator's outer loading. It reflects the variation between items under one construct and is represented as the variance extracted from the item. Table 14 illustrates indicator reliability for all indicators.

Table 15 Indicator Reliability

	(D) ADV	(D) GOV	(D) INDP	(D) OBJTV	(D) RR	(I) Information	(P) CFR	(P) CLF	(P) CPR	(P) LT	(P) LU
CFr2							0.716				
CFr3							0.808				
CFr4							0.821				
CFr5							0.829				
CFr6							0.588				
CLF2								0.728			
CLF3								0.812			
CLF4								0.708			
CLF5								0.701			
CLF6								0.783			
CPR1									0.626		
CPR2									0.690		
CPR3									0.593		
CPR4									0.703		
CPR5									0.818		
CPR6									0.761		
EnglishL						0.947					
LT1										0.826	
LT2										0.850	
LT3										0.876	
LT4										0.817	
LU2											0.935
LU4											0.596

PositionInIA					0.576						
SAdV1	0.834										
SAdV2	0.730										
SAdV3	0.599										
SAdV4	0.571										
SAdV6	0.532										
SGov1		0.919									
SGov2		0.890									
SIndAndOjctv1			0.721								
SIndAndOjctv2			0.840								
SIndAndOjctv3			0.831								
SIndAndOjctv4			0.836								
SIndAndOjctv5			0.843								
SIndvOjctv1				0.779							
SIndvOjctv2				0.793							
SIndvOjctv4				0.854							
SIndvOjctv5				0.791							
SRR1					0.871						
SRR2					0.631						
SRR3					0.870						
SRR4					0.716						

(Source: Author)

It seems that all indicators achieved a satisfactory value and therefore, all indicators are reliable.

6.6 Validity

Validity is a well-known term in the field of quantitative research. Neuman (2002) pointed out that validity represents truthfulness; its goal is to make sure the questionnaire items are straightforward, related to what will be measured, and understandable.

6.6.1 Convergent Validity

Convergent validity is the extent to which a measure correlates positively with alternative measures of the same construct. Utilizing the domain sampling model, indicators of a reflective construct are processed in different ways to measure the same construct. Thus, the items that are measures of a certain construct must converge on a greater amount of variance. To create convergent validity, scholars consider the outer loadings of the indicators, as well as the average variance extracted (AVE). High outer loadings on a construct show that the related indicators have much in common. This feature is also generally known as indicator reliability.

Overall, all indicators' outer loadings should be statistically significant. A general measurement method to create convergent validity on the construct level is the average variance extracted (AVE). This measure is known as the grand mean value of the squared loadings of the indicators related with the construct, for example the sum of the squared loadings divided by the number of indicators. Thus, the AVE is the same value as the communality of a construct. An AVE value of around 0.50 (Hair Jr et al., 2016) or upper shows that, on average, the construct explains more than half of the variance of its indicators. Convergent validity evaluation assessment builds on the AVE value as the

assessment criterion. In this study, the AVE values were LU (0.615), LT (0.710), CPR (0.493), CLF (0.559), CFR (0.575), INFO (0.614), RR (0.606), OBJV (0.648), INDP (0.665), GOV (0.818), and ADV (0.439). It is clear from the above table that all results of Average Variance Extracted for all constructs are about .50 and there is no convergent validity problem.

6.6.2 Discriminant Validity

Discriminant validity is the extent to which a construct really differs from other constructs by empirical standards. Thus, establishing discriminant validity means that a construct is distinctive and reflects phenomena not explained by other constructs in the model.

One way of evaluating discriminant validity is by testing the cross loadings of the indicators. Specifically, an indicator's outer loading on the related construct should be higher than all of its loadings on other constructs, for instance the cross loadings. The existence of cross loadings that exceed the indicators' outer loadings reflects a discriminant validity problem. Table 15 presents the cross loading method.

Table 16 Cross loading method

	(D) ADV	(D) GOV	(D) INDP	(D) OBJTV	(D) RR	(I) Information	(P) CFR	(P) CLF	(P) CPR	(P) LT	(P) LU
CFr2	0.020	0.257	0.295	0.291	0.117	0.146	0.716	0.319	0.406	0.242	0.225
CFr3	0.057	0.264	0.368	0.370	0.185	0.055	0.808	0.407	0.424	0.258	0.155
CFr4	0.012	0.181	0.283	0.361	0.068	-0.064	0.821	0.309	0.358	0.230	0.039
CFr5	-0.019	0.185	0.291	0.335	0.083	-0.035	0.829	0.331	0.377	0.223	0.040
CFr6	-0.007	0.228	0.296	0.222	0.152	-0.084	0.588	0.343	0.478	0.149	0.061
CLF2	0.164	0.199	0.273	0.333	0.118	0.076	0.315	0.728	0.428	0.199	0.142

CLF3	0.293	0.229	0.415	0.338	0.310	0.110	0.340	0.812	0.458	0.110	0.155
CLF4	0.216	0.142	0.343	0.245	0.182	0.140	0.306	0.708	0.392	0.068	0.223
CLF5	0.058	0.073	0.250	0.251	0.157	0.044	0.362	0.701	0.323	0.087	0.069
CLF6	0.320	0.286	0.434	0.400	0.318	0.086	0.380	0.783	0.426	0.117	0.174
CPR1	0.084	0.289	0.303	0.308	0.085	0.092	0.422	0.369	0.626	0.213	0.115
CPR2	0.131	0.146	0.304	0.216	0.142	0.001	0.290	0.297	0.690	0.113	0.104
CPR3	0.092	0.135	0.245	0.224	0.043	-0.098	0.273	0.278	0.593	0.098	-0.003
CPR4	0.070	0.208	0.323	0.265	0.174	0.034	0.395	0.374	0.703	0.145	0.155
CPR5	0.202	0.362	0.382	0.379	0.269	0.168	0.402	0.443	0.818	0.097	0.219
CPR6	0.173	0.366	0.387	0.436	0.232	0.139	0.436	0.476	0.761	0.205	0.227
EnglishL	0.272	0.153	0.123	0.043	0.205	0.947	0.002	0.107	0.111	-0.067	0.434
LT1	0.148	-0.002	0.132	0.170	0.131	-0.040	0.220	0.097	0.158	0.826	0.157
LT2	0.145	0.038	0.164	0.202	0.096	-0.023	0.281	0.148	0.209	0.850	0.054
LT3	0.174	0.008	0.152	0.198	0.099	-0.049	0.264	0.114	0.158	0.876	0.006
LT4	0.158	0.093	0.150	0.207	0.116	-0.076	0.232	0.169	0.190	0.817	0.059
LU2	0.248	0.283	0.213	0.115	0.207	0.466	0.116	0.195	0.175	-0.031	0.935
LU4	0.208	0.013	0.155	0.086	0.177	0.090	0.120	0.126	0.190	0.294	0.596
PositionInIA	0.283	0.185	0.052	-0.041	0.193	0.576	0.028	0.099	0.043	-0.002	0.156
SAdV1	0.834	0.199	0.301	0.195	0.399	0.280	0.047	0.310	0.163	0.270	0.283
SAdV2	0.730	0.170	0.181	0.111	0.426	0.245	0.015	0.151	0.175	0.069	0.183
SAdV3	0.599	0.100	0.150	0.056	0.324	0.142	-0.030	0.143	0.102	0.011	0.135
SAdV4	0.571	0.105	0.080	-0.023	0.281	0.216	-0.074	0.120	0.053	-0.013	0.124
SAdV6	0.532	0.126	0.131	0.078	0.344	0.164	0.030	0.181	0.069	0.028	0.093
SGov1	0.231	0.919	0.449	0.422	0.301	0.185	0.281	0.264	0.373	0.049	0.273
SGov2	0.171	0.890	0.422	0.384	0.231	0.163	0.253	0.214	0.321	0.024	0.155
SIndAndOjctv1	0.172	0.287	0.721	0.583	0.256	-0.017	0.295	0.327	0.317	0.180	0.083
SIndAndOjctv2	0.298	0.364	0.840	0.559	0.320	0.123	0.320	0.403	0.367	0.114	0.197
SIndAndOjctv3	0.176	0.422	0.831	0.569	0.279	0.105	0.362	0.410	0.375	0.150	0.236
SIndAndOjctv4	0.295	0.446	0.836	0.575	0.355	0.078	0.303	0.359	0.413	0.168	0.158
SIndAndOjctv5	0.257	0.431	0.843	0.580	0.321	0.183	0.375	0.422	0.436	0.121	0.257

	0.062	0.258	0.470	0.779	0.163	-0.053	0.315	0.238	0.294	0.250	-0.005
SIndvOjctv1	0.062	0.258	0.470	0.779	0.163	-0.053	0.315	0.238	0.294	0.250	-0.005
SIndvOjctv2	0.155	0.323	0.509	0.793	0.249	0.005	0.248	0.279	0.278	0.152	0.075
SIndvOjctv4	0.112	0.387	0.604	0.854	0.194	0.024	0.376	0.402	0.404	0.155	0.155
SIndvOjctv5	0.197	0.429	0.632	0.791	0.242	0.071	0.385	0.412	0.441	0.194	0.146
SRR1	0.491	0.261	0.337	0.241	0.871	0.224	0.163	0.264	0.226	0.102	0.253
SRR2	0.216	0.098	0.181	0.131	0.631	0.159	0.076	0.156	0.065	0.124	0.092
SRR3	0.409	0.281	0.374	0.285	0.870	0.144	0.166	0.296	0.264	0.148	0.188
SRR4	0.473	0.248	0.235	0.119	0.716	0.230	0.069	0.214	0.153	0.035	0.171

(Source: Author)

It can be observed from the Table 15 that all indicators' outer loadings on the associated construct are greater than all of their loadings on other constructs. Based on this approach it can be concluded that there is no discriminant validity problem.

The second approach to discriminant validity is the Fornell-Larcker criterion, which is a more conservative method of evaluating discriminant validity. It makes a comparison of the square root of the AVE values with the latent variable correlations. Specifically, the square root of every construct's AVE must be higher than its highest correlation with any other construct (Hair Jr et al., 2016). The rationale behind this approach is because a construct shares more variance with its related indicators than with other constructs.

Table 17 AVE values

	(D) ADV	(D) GOV	(D) INDP	(D) OBJTV	(D) RR	(I) Information	(P) CFR	(P) CLF	(P) CPR	(P) LT	(P) LU
(D) ADV	0.663										
(D) GOV	0.224	0.905									
(D) INDP	0.295	0.482	0.816								
(D) OBJTV	0.168	0.446	0.701	0.805							

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(D) RR	0.523	0.296	0.376	0.263	0.779					
(I) Information	0.326	0.193	0.122	0.023	0.240	0.784				
(P) CFR	0.020	0.296	0.408	0.422	0.162	0.011	0.758			
(P) CLF	0.304	0.266	0.474	0.430	0.307	0.124	0.454	0.748		
(P) CPR	0.188	0.385	0.471	0.455	0.244	0.109	0.538	0.548	0.702	
(P) LT	0.186	0.041	0.177	0.231	0.132	-0.057	0.295	0.156	0.211	0.842
(P) LU	0.283	0.241	0.235	0.128	0.238	0.422	0.141	0.209	0.216	0.082	0.784

(Source: Author)

It can be observed from Table 16 that the highest values of loading with there corresponding constructs are for ADV (0.663), GOV (0.905), INDP (0.816), OBJECTV (0.805), RR (0.779), INFO. (0.784), CFR (0.758), CLF (0.748), CPR (0.702), LT (0.842), LU (0.784), whereas all cross loadings with other constructs are much lower. The results appear for the other indicators. All in all, cross loadings as well as the Fornell-Larcker measure deliver evidence for the constructs' discriminant validity.

Once the reliability and validity are confirmed, the next phase is to assess the structural model outcomes. This includes evaluating the model's predictive capabilities and the relationships between the constructs. However, before doing this analysis, collinearity has to be assessed for the structural model.

6.6.3 Collinearity Assessment

Collinearity appears in the situation of a structural model assessment when two constructs are highly correlated. If the level of collinearity is very high (a VIF value of 5 or higher), consideration should be given to removing one of the corresponding indicator(s).

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Table 18 Collinearity Assessment

	(D) ADV	(D) GOV	(D) INDP	(D) OBJTV	(D) RR	(I) Information	(P) CFR	(P) CLF	(P) CPR	(P) LT	(P) LU
(I) Information							1.000	1.000	1.000	1.000	1.000
(P) CFR		1.482	1.482	1.482							
(P) CLF		1.506	1.506	1.506							
(P) CPR		1.681	1.681	1.681							
(P) LT	1.007				1.007						
(P) LU	1.007				1.007						

(Source: Author)

Overall, all values that appear in the table 17 are less than 5. Therefore, there are no collinearity problems.

6.7   Path Coefficients

6.7.1 Significance of relationships

The path coefficients have standardized values between -1 and + 1. Assessed path coefficients around + 1 represent strong relationships (and vice versa for negative values) that are usually statistically significant (i.e., different from zero in the population). The nearer the assessed coefficients are to 0, the weaker the relationships. Very low values near to 0 are usually non-significant (i.e., not significantly different from zero). Whether a coefficient is significant ultimately depends on its standard error, which is gained by means of bootstrapping. When the empirical t value is greater than the critical value, then it can be claimed that the coefficient is significant at an assured error probability (i.e., significance

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level). The critical values usually used for two tailed tests are 1 .65 (significance level= 10%), 1.96 (significance level = 5%), and 2.57 (significance level = 1 %).

In the marketing field, academics regularly presume a significance level of 5% (Hair Jr et al., 2016). This is not always the case, however; customer research studies from time to time presume a significance level of 1 %, particularly when experiments are involved. Furthermore, when a research is exploratory in nature, scholars frequently presume a significance level of 10%. Eventually, the choice of the significance level depends on the domain of research and the research objective.

Table 19 Significance of relationships

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
(P) CFR -> (D) GOV	0.113	0.115	0.063	1.814	0.070
(P) CFR -> (D) INDP	0.157	0.158	0.064	2.441	0.015
(P) CFR -> (D) OBJTV	0.202	0.203	0.061	3.328	0.001
(P) CLF -> (D) GOV	0.053	0.053	0.061	0.865	0.387
(P) CLF -> (D) INDP	0.273	0.275	0.061	4.480	0.000
(P) CLF -> (D) OBJTV	0.211	0.213	0.059	3.594	0.000
(P) CPR -> (D) GOV	0.296	0.298	0.066	4.460	0.000
(P) CPR -> (D) INDP	0.237	0.238	0.069	3.420	0.001
(P) CPR -> (D) OBJTV	0.231	0.233	0.063	3.646	0.000
(P) LT -> (D) ADV	0.164	0.173	0.060	2.732	0.006
(P) LT -> (D) RR	0.113	0.120	0.054	2.076	0.038
(P) LU -> (D) ADV	0.270	0.280	0.047	5.781	0.000
(P) LU -> (D) RR	0.229	0.236	0.053	4.299	0.000

(Source: Author)

Figure 17 Significance of relationships
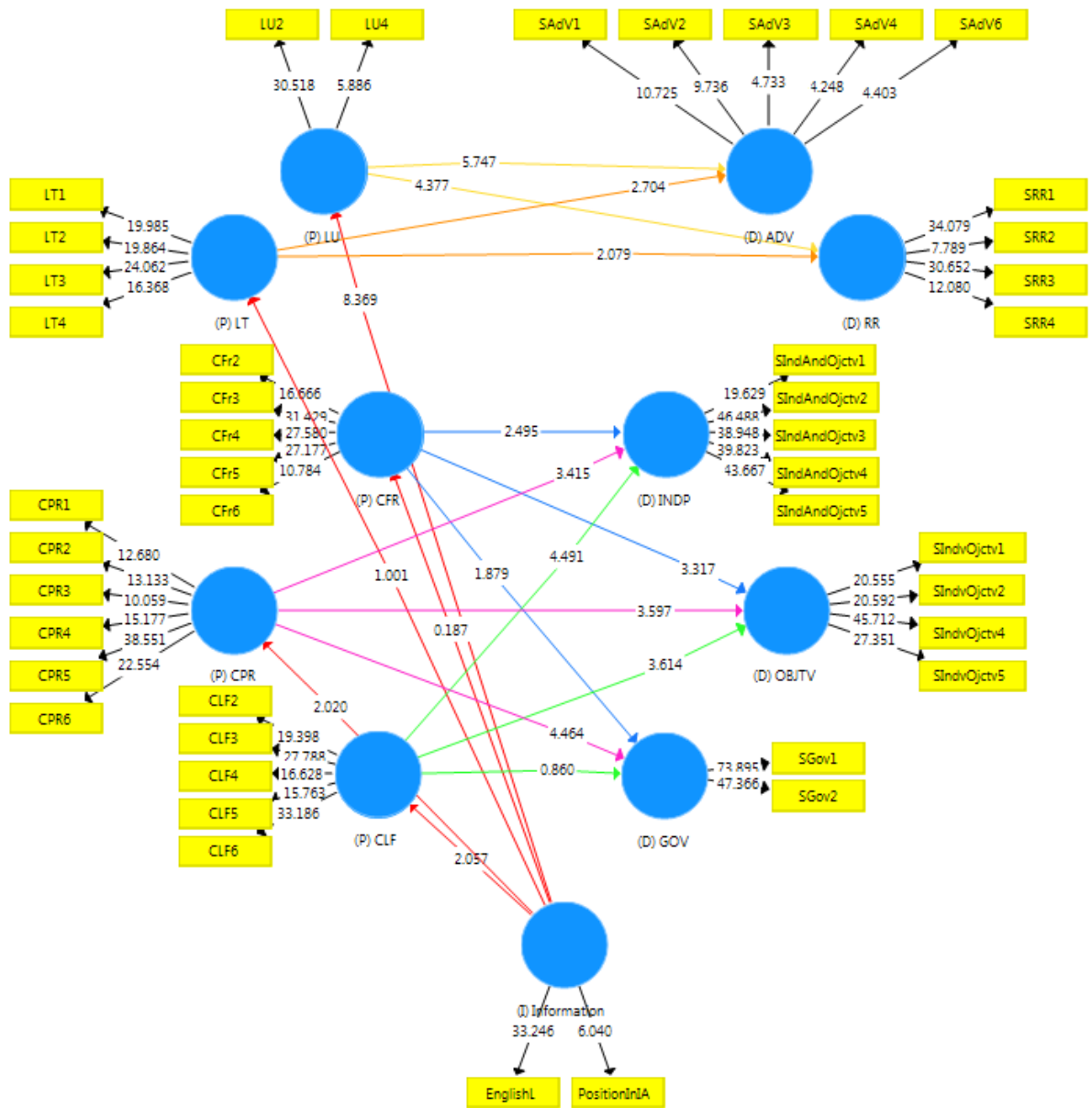
(Source: Author)

It seems from Table 18 and Figure 13 that all relationships are significant except between CFR ->GOV and CLF ->GOV.

6.7.2 Coefficient of Determination (R square Value)

The most frequently used measure to assess the structural model is the coefficient of determination (R square value). This coefficient is a measure of the model's predictive accuracy and is calculated as the squared correlation between a specific dependent construct's actual and expected values.

The coefficient shows the independent latent variables' combined impacts on the dependent latent variable. Because the coefficient is the squared correlation of actual and expected values, it also shows the amount of variance in an endogenous construct described by all of the exogenous constructs related to it. The R square value ranges from 0 to 1 with higher levels demonstrating higher levels of predictive accuracy. It is difficult to provide ideal rules for acceptable R square values, as this depends on the model complexity and the study discipline. While R square values of 0.20 are considered high in disciplines such as customer behaviour, in success driver studies (e.g., in studies that aim at explaining customer satisfaction or loyalty), scholars assume much higher values of 0.75 and above. In scholarly research that focuses on marketing issues, R square values of 0.75, 0.50, or 0.25 for endogenous latent variables can, as a rough rule of thumb, be respectively defined as strong, moderate, or weak (Henseler et al., 2009; Hair et al., 2011).

The following Table 19 and bar chart (Figure 14) illustrate the R square for all constructs. Based on the study assumptions there are independent variables, LU, LT, CPR, CFR and CLF, which affect the dependent variables, ADV, RR, INDP, INDVOBJCT, and GOV. With regard to the independent latent variables, the study has two main variables, language and relational social capital. The language variable has two main constructs, *Understanding* (LU) and *Translation* (LT). The second variable is about *Relational Social Capital* which,

contains three constructs; *Personal Social Capital (PRSC), Friendship Social Capital (FRSC)* and *Family Social Capital (FMSC).* All independent latent variables are assumed to be affected by information (INFO).

In terms of dependent latent variables, this study has the same distinction as the independent latent variables, two main constructs that are affected by language and social capital. Constructs affected by language are the *Residual Risk* term (RR) and the *Add Value* term (ADV), while the constructs affected by social capital are independence (INDP), *Individual Objectivity* (SINDVOBJCT), and *Governance* (GOV). Figure 14 illustrates the R square for each construct. It can be seen from the table below that the independence construct achieved the highest value (0.305) which is caused by social capital (CPR, CFR and CLF). In construct, the lowest value of R square is (0.000) which is obtained by CFR and the reason for that is because there is no effect of information on CFR. The second highest R square value was *Individual Objectivity* (SINDVOBJECT) which accounts for 0.281, which is caused by social capital (CPR, CFR and CLF). Then came the LU (0.178) which is affected by information and GOV (0.162) which is influenced by social capital and ADV (0.107) and RR (0.069) which are impacted by language. The second lowest values are LT with R value (0.003) which is affected by information, then CPR and CLF whereas R values are (0.012) and (0.015) respectively and all these are influenced by information.

Table 20 R square values

	R Square
(D) ADV	0.1069
(D) GOV	0.1615
(D) INDP	0.3046
(D) OBJTV	0.2812
(D) RR	0.0694
(P) CFR	0.0001
(P) CLF	0.0154
(P) CPR	0.0119
(P) LT	0.0033
(P) LU	0.1781

(Source: Author)

Figure 18 Coefficient of Determination (R square value)
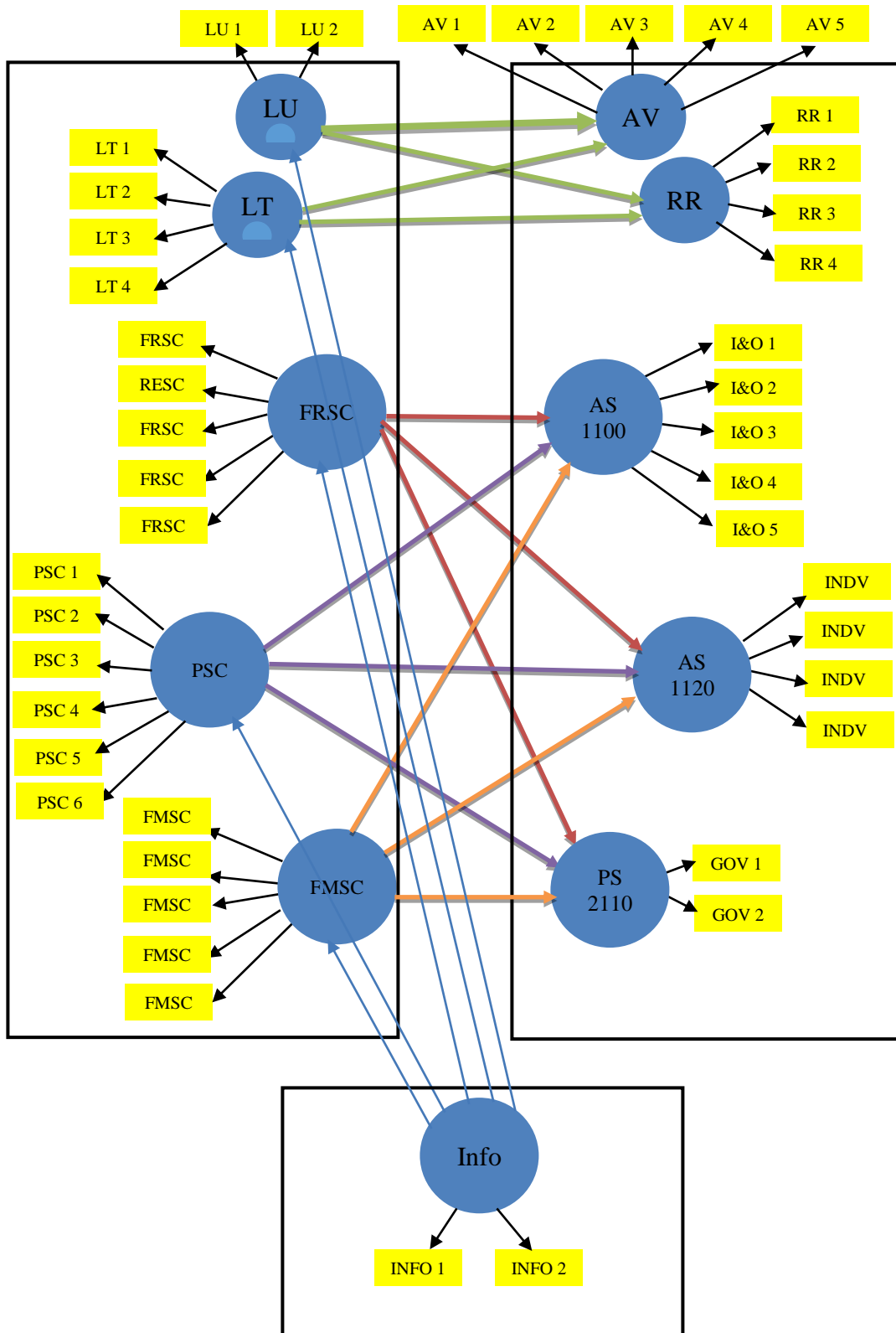
(Source: Author)

6.8 Findings

The findings are divided into two main analysis sections. The first is related to the measurement model and the second is related to the structural model. The measurement model includes internal consistency (composite reliability), indicator reliability, convergent validity (average variance extracted), and discriminant validity. In terms of Internal consistency (composite reliability). It can be observed from the above Table 13 and Figure 12 that the composite reliability values of 0.753 (LU), 0.907 (LT), 0.852 (CPR), 0.863 (CLF), 0.869 (CFR), 0.750 (Info.), 0.858 (RR), 0.880 (OBJTV), 0.908 (INDP), 0.900 (GOV), and 0.792 (ADV) show all constructs have high levels of internal consistency reliability. With regard to indicator reliability, Table 4 illustrates indicator reliability for all indicators. and it seems that all indicators achieved a satisfactory value and therefore, all indicators are reliable. In terms of convergent validity, a general measurement method to create convergent validity on the construct level is the average variance extracted (AVE). In this study, the AVE values were LU (0.615), LT (0.710), CPR (0.493), CLF (0.559), CFR (0.575), INFO (0.614), RR (0.606), OBJV (0.648), INDP (0.665), GOV (0.818), and ADV (0.439). It is clear from the analysis that all results of Average Variance Extracted for all constructs are about .50 and there is no convergent validity problem. Discriminant validity is the next analysis. One way of evaluating discriminant validity is by testing the cross loadings of the indicators. Specifically, an indicator's outer loading on the related construct should be higher than all of its loadings on other constructs. It can be observed from the Table 15 that all indicators' outer loadings on the associated construct are greater than all of their loadings on other constructs. Based on this approach it can be concluded that there is no discriminant validity problem.

The second approach to discriminant validity is the Fornell-Larcker criterion, which is a more conservative method of evaluating discriminant validity. It makes a comparison of the square root of the AVE values with the latent variable correlations. It can be observed from Table 16 that the highest value of a loading with its corresponding construct as for ADV (0.663), GOV (0.905), INDP (0.816), OBJECTV (0.805), RR (0.779), INFO. (0.784), CFR (0.758), CLF (0.748), CPR (0.702), LT (0.842), LU (0.784), whereas all cross loadings with other constructs are much lower. The results appear for the other indicators. All in all, cross loadings as well as the Fornell-Larcker measure deliver evidence for the constructs' discriminant validity. In regard to Collinearity, it appears in the situation of a structural model assessment when two constructs are highly correlated. If the level of collinearity is very high (a VIF value of 5 or higher), consideration should be given to removing one of the corresponding indicators.

After the measurement analysis section comes the structural model evaluation findings. In terms of significance, it can be seen from Table 18 that all relationships in both *Relational Social Capital* and *Linguistic Social Capital* are significant, as all values were above 1.96. This study, as mentioned earlier, has independent variables and dependent variables. The independent variables refer to social capital and are divided into two main sections. The first section of social capital is about *Linguistic Social Capital*, which includes the *Understanding* construct and *Translation* construct. The second section is about relational social capital, which is divided into three main constructs: personal social capital, family social capital, and friendship social capital.

In terms of the *Linguistic Social Capital*. The research questions are, Question 1: Do internal auditors who do not speak English as a first language fully understand the International Standards for the Professional Practice of Internal Auditing? This question can be broken down into sub question:

Question 1 a: Do internal auditors who do not speak English as a first language fully understand the *Residual Risk* term?

Question 2: Do internal auditors who do not speak English as a first language fully understand the translation of the International Standards for the Professional Practice of Internal Auditing in their local language?

This question can be broken down into sub-question:

Question 2 a: Do internal auditors who do not speak English as a first language fully understand the translation of *Residual Risk* term in their local language?

It can be seen from Figure 14 that the *Residual Risk* construct has been influenced .069 by the constructs, *Understanding*, and *Translation*. Furthermore, the findings showed that *Residual Risk* is influenced by *Understanding* the construct and the beta is $\beta = 22.9\%$. The *Residual Risk* construct is impacted by the *Translation* construct as well, $\beta = 11.3\%$. In terms of a significant relationship between language constructs, *Understanding* and *Translation*, and the *Residual Risk* term, the relationship is significant because both relationship values are above 1.96. The *Residual Risk* construct also has high outer loading in its four indicators, as follows: .871, .631, .870, and .716. These results answered the research questions by showing that internal auditors who do not speak English as a first language do not fully understand the professional terms (*Residual Risk*) of the

International Standards for the Professional Practice of Internal Auditing. Also, this result supports the following hypotheses;

H 1: There is a positive influence of *Linguistic Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing. This hypothesis can be broken into four sub-hypotheses as follows;

H 1 a: There is a positive influence of *Linguistic Social Capital* through *Understanding* construct in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to *Residual Risk* term.

H 1 c: There is a positive influence of *Linguistic Social Capital* through *Translation* construct in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to the *Residual Risk* term.

In terms of the influence of linguistic independent variables on the *Add Value* term, it can be seen from the analysis in the previous section that the *Add Value* construct was influenced .107 by the *Understanding* construct and *Translation* construct. The *Add Value* construct has five indicators and their outer loadings are: .834, .730, .599, .571, and .532. Furthermore, the result showed that the *Understanding* construct influences the *Add Value* term, $\beta = 27\%$; the *Add Value* construct is impacted by the *Translation* construct as well, $\beta = 16.4\%$.

Both exogenous variables have a significant relationship (above 1.96) with the *Add Value* term, at 5.747and 2.704 respectively. Therefore, it can be said that the analysis answers the following research questions, Question 1 b: Do internal auditors who do not speak English as a first language fully understand and implement the *Add Value* term? Question 2 b: Do

internal auditors who do not speak English as a first language fully understand the *Add Value* term after translation in their local language? The answer is that the internal auditors in Saudi Arabia are influenced by English and translation for *Understanding* the International Standards for the Professional Practice of Internal Auditing.

In addition, the result supports both hypotheses that represent the *Understanding* and *Translation* constructs as one of the social capital independent variables influencing the *Add Value* professional term, with a significant relationship. The results also support the following hypotheses, that there is a positive effect of both constructs of *Linguistic Social Capital* (*Understanding* and *Translation*) on compliance with the International Standards for the Professional Practice of Internal Auditing.

H 1 b: There is a positive influence of *Linguistic Social Capital* through *Understanding* construct in compliance with the International Standards for the Professional Practice of Internal Auditing, concerning *Add Value* term.

H 1 d: There is a positive influence of *Linguistic Social Capital* through *Translation* construct in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to *Add Value* term.

In terms of the second section, relational social capital, three independent constructs influence the dependent variables. Thus, the main sub hypotheses are as follows,

H 2: There is a negative influence of *Relational Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing.

This hypothesis can be broken into sub-hypotheses. In regard to standard AS 1100, Independence and Objectivity, the following hypotheses have been examined;

H 2. 1: There is a negative influence of *Personal Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to independence and objectivity, standards number AS 1100.

H 2. 4: There is a negative influence of *Family Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to independence and objectivity, standards number AS 1100.

H 2. 7: There is a negative influence of *Friendship Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to independence and objectivity, standards number AS 1100.

In terms of the association of *Relational Social Capital* with independence and objectivity, standard number AS 1100, around 30 per cent of non-compliance with the *Independence and Objectivity* standard is explained by Friendship Social Capital, *Personal Social Capital* and *Family Social Capital*. The influences of these form of social capital on the standard AS 1100 are .157, .237, and .273 respectively.

In regard to the significance of relationships between all relational constructs and the *Independence and Objectivity* standard, all values for association between Friendship Social Capital, Personal Social Capital, and *Family Social Capital* and the *Independence and Objectivity* standard are above 1.96, being 2.495, 3.415 and 4.491 respectively. Thus, the results support the hypotheses and show a negative effect of *Relational Social Capital* on compliance with the International Standards for the Professional Practice of Internal Auditing, AS 1100, Independence and Objectivity.

Also answered are the related questions, which are, Question 3. 1: Does *Family Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standards number AS 1100? Question 3. 4: Do *Friendship Social Capital* influence internal auditors from compliance with the International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standard number AS 1100? Question 3. 7: Does *Personal Social Capital* influence internal auditors from compliance with the International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standard number AS 1100? The study answered the above research question, by demonstrating that internal auditors in Saudi Arabia are influenced by Relational Social Capital, Personal Social Capital, Friendship Social Capital, and *Family Social Capital* with regard to Independence and Objectivity. In terms of Individual Objectivity, standard AS 1120, the figures show that .281 % of non-compliance with the Individual Objectivity, AS 1120 is influenced by Friendship Social Capital, Personal Social Capital, and Family Social Capital.

In regard to the significance of associations between all relational constructs and the *Individual Objectivity* standard, all values for the association between friendship, personal relationship and loyalty to family, and the *Individual Objectivity* standard are above 1.96, at 3.317, 3.597, and 3.614, respectively. Moreover, the impact of *Personal Social Capital* impact on the *Individual Objectivity* Standard AS 1120 is $\beta = 23.10\%$, whereas the effect of *Friendship Social Capital* on the *Individual Objectivity* Standard is $\beta = 20.2\%$. *Family Social Capital* also influences the same standard, which is $\beta = 21.1\%$. These results also support the following hypotheses, H 2. 2: There is a negative influence of *Personal Social*

Capital in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to Individual Objectivity, standards number AS 1120.

H 2. 5: There is a negative influence of *Family Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to Individual Objectivity, standards number AS 1120.

H 2. 8: There is a negative influence of *Friendship Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to Individual Objectivity, standards number AS 1120.

In terms of the *Governance* standard, there are several hypotheses that assume that *Relational Social Capital* (Personal Social Capital, Family Social Capital, and Friendship Social Capital) can influence compliance with regards to *Governance* standard PS 2110.

H 2. 3: There is a negative influence of *Personal Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to *Governance*, standards number PS 2110.

H 2. 6: There is a negative influence of *Family Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to *Governance*, standards number PS 2110.

H 2. 9: There is a negative influence of *Friendship Social Capital* in compliance with the International Standards for the Professional Practice of Internal Auditing, with regards to *Governance*, standards number PS 2110.

The result shows that the *Governance* standard is the last endogenous variable that has a relationship with the relational exogenous variable, where .162 is the percentage influenced

by Friendship Social Capital, Personal Social Capital, and Family Social Capital. Furthermore, the influence of *Friendship Social Capital* on *Governance* is .113, while the influence of *Personal Social Capital* on *Governance* is .296 and the influence of *Family Social Capital* is .053. In terms of significance, there is a significant relationship between *Personal Social Capital* and *Governance*. However, there is a non-significant relationship between Friendship Social Capital, Family Social Capital, and *Governance* because both values are below 1.96. These results also answered the following questions,

Question 3. 3: Does the *Family Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Governance* standards number PS 2110?

Question 3. 6: Does the *Friendship Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standards number PS 2110?

Question 3. 9: Does the *Personal Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Governance* standards number PS 2110?

With regard to demographic information, it is clear from Figure 14 that .178 % of the *Understanding* construct was influenced by position in the Internal Audit department and English Language. The outer loading of this construct is .935 and .596, whereas the *Translation* construct does not have the same affect from demographic information. Thus, the position inside the internal audit department and also the English language do not have the same affect as the demographic information. Only .003 of translation is influenced by

this type of information. However, the outer loading seems high as well. Its outer loading is .826, .850, .876, and .817. The outer loading of the information construct is .947 and .576.

6.9   Discussion

In terms of linguistics, Seki (2004) examined the difficulties of learning English and the reasons behind these difficulties, such as language distance, geographic distance, and cultural distance. The study was conducted in Japan for first-year university students, and the sample was about 150. The findings showed that there was a significant relationship at the 1% level between language distance and learning English. Around 55% of the respondents agreed that difficulties in learning English were due to language distance.

Furthermore, the findings also showed that about 59% of respondents did not have an ability to read references. In addition, 72.70% of the total number of students disagreed that they had the capacity to use English in a future job. This was considered a problem in Japan. The current study found a significant relationship (as shown in Figure 13) between language constructs, *Understanding* and *Translation*, and compliance with the International Standards for the Professional Practice of Internal Auditing, in relation to professional terms, *Residual Risk*, and *Add Value*. It can be noticed from the Figure that the *Add Value* term explained .107 per cent of failure to comply fully with the standard, affected by *Understanding* and *Translation*. Both exogenous variables have a significant relationship (above 1.96) with the *Add Value* term, at 5.747and 2.704 respectively.

In regard to the *Residual Risk* construct, I found .069 of *Residual Risk* construct influenced by the *Understanding* and *Translation* constructs, with a significant relationship between

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language constructs, *Understanding* and *Translation* and the *Residual Risk* term, because both relationship values are above 1.96.

In addition to this, Chen (2010) conducted an overall analysis of diverse language and ethnic minority groups and their communication problems and linguistic obstacles. The study used a questionnaire to collect data from the California Health Interview Survey and focused on recognising the gaps and weaknesses of language obstacles and communication problems among various groups in different area distributions in California. I found that in the demographic information part, as compared to these with very high English-speaking ability, participants whose English proficiency was not good had a higher likelihood of facing communication problems (8.6% vs. 25.4%). This study also supports the significant relationship between two language constructs and its effect on being not fully in compliance with the International Standards for the Professional Practice of Internal Auditing, *Residual Risk*, and *Add Value*.

With regard to the translation of professional terms from home language to host language, Doupnik and Richter (2003) found differences that exist between two cultures. There was a significant difference in probabilities assigned to uncertainty expressions used in International Accounting Standards between English-speaking American CPAs and German-speaking, when the standards were translated from English to German. The findings also showed that translation from English to German resulted in various interpretations, which raises important questions as to whether this impact was the result of the poor quality of the translation or whether the English expression did not have the same meaning in German. The authors also pointed out that individuals working in a different

language environment appeared to be less confident and less comfortable and preferred to use their home language in the work environment. Specifically, the current study found a significant relationship between the *Translation* construct and the *Add Value* and *Residual Risk* terms. However, Joseph (1995) claimed that that there was a significant relationship in his hypotheses, which assumed the inter-rater agreement is lower for generic phrases than for accounting-specific phrases. The relative dispersion is higher for generic phrases than for accounting-specific phrases. Still, the translation process is an issue in many professional societies. However, Belkaoui (1980) claimed that professional terms and concepts are sometimes mistakenly interpreted by individuals who speak one language compared to those who speak many languages. This would indicate that translation between different languages causes problems that are sometimes impossible to solve.

In terms of understanding, Holthoff et al. (2015) examined the effect of using translated International Financial Reporting Standards (IFRS) on Decision-Making. The respondents were from Germany and the participants (229 individuals) made a decision about a series of cases that related to the International Accounting Standard (IAS 24 Related Party Disclosures). The study hypothesised that "the use of an accounting standard in the user's (non-English) mother tongue leads to higher-quality decisions than the use of an accounting standard in the original English version" (Holthoff et al., 2015:113). The finding showed that respondents who use of accounting standards in their home language (non-English version) made higher-quality decisions than did respondents who use of the original English version. This result support the use of the local language, a reference to the fact that it is not easy to understand standards in the standard's home language.

In terms of culture and internal auditor performance, Adhikari and Tondkar (1992) investigated the relationship between external factors from an organisational point of view and disclosure requirements in the stock market in various places. The authors used a cross-national disclosure model in construction. The results showed a significant relationship between environmental factors and stock exchange disclosure requirements in various countries. This study was consistent with previous studies (Frank, 1979; Nair & Frank, 1980; Goodrich, 1986; Cooke, 1989; Wallace & Gernon, 1991) that provided evidence for the association of environmental factors and accounting. Furthermore, Klein et al. (2009) supported this direction. The purpose of their study examined the impact of Arab national culture (NC) on the style of organisational culture (OC) in the United Arab Emirates (UAE). The findings showed an influence of cultural values on the performance of organisational culture rules. Similarly, Svanberg and Öhman (2013) examined the influence of ethical culture on audit quality with regard to the time budget pressure concept. Their study was quantitative and the questionnaire was distributed to financial auditors in Sweden. The results showed a significant negative relationship between culture and time budget pressure.

With regard to social capital and particularly to family social capital, Tlaiss and Kauser (2011) provided evidence for family connection and career development. They claimed that *wasta* was an example of a strong family connection (Hutchings & Weir, 2006) widespread in Gulf and Asian countries. Tlaiss and Kauser (2011) found that family connections played a critical role in the development of a workplace environment. The findings showed that around 89% of the respondents used family connections to help them achieve their goals in the workplace. Furthermore, 80% of respondents replied that they used family connections

in organisations, and 86% of respondents agreed that family connections helped them in many kind of actions inside organisations. Also, the results showed that more than 80% indicated that a strong family connection has a critical role in recruitment and individual progress. However, most respondents, around 83%, considered *wasta*, or the use of family connections inside organisations, to achieve personal goals as an unfair approach. This study supports the finding of the current study, which shows a significant relationship between loyalty to family and being not fully compliant with the standards.

In addition to this, Abdalla et al. (1998) conducted a study of 318 Jordanian employees and the results showed that around 69% of total respondents agreed with a statement that said family members who were led to success through family ties hurt companies. Around 77% of respondents from the same study indicated that family disagreements raised business problems and difficulties in many organisations. Furthermore, the authors found that 92% of the respondents encountered difficulties in firing or demoting employees if they were relatives of executives or those in upper positions. This study agreed with Pérez-González (2006), who found that social connections such as family relationships resulted in an unskilled staff and caused poor performance. Furthermore, Arasli et al. (2006) agreed with these studies, as they found that family connections affect the work environment. Their study investigated the proper influence of family connections on the workplace, such as human resource management. The study was conducted in Cyprus in different organisations. The researchers assumed that family connections had a significant negative effect on an individual's positive emotional reactions, such as in training and career development. The result showed a negative significant influence of family relationships on job satisfaction, which includes training and career development. This result agrees with Keleş et al. (2011), who collected data in Istanbul from 240 employees who worked in

various companies. Their study examined the impact of nepotism, favouritism, and cronyism on organisational loyalty with regard to internal control in the auditing process. In their study, they hypothesised that nepotism, favouritism, and cronyism have a negative impact on organisational trust. The results showed a significant negative effect of nepotism on organisational trust in companies (.000) at the 5% level and $R^2 = 0.675$. Furthermore, I found a significant negative effect of favouritism on organisational trust in organisations (.000) at the 5% level and $R^2 = 0.609$. The third hypothesis was also supported by the result, which found a negative relationship between cronyism and organisational trust $R^2 = 0.365$; the relationship was significant at 5%. Thus, the main finding of this study was that nepotism, favoritism, and cronyism decrease organisational trust in family business.

In terms of personal relationships, Abdolmohammadi (2011) examined the performance behaviour of internal auditors in many countries. He distributed his questionnaire to a large number of chief audit executives (CAEs) through the Institute of Internal Auditors Research Foundation in 19 countries, located in five various culture groups. The author hypothesised that the importance of performance attributes such as working independently, objectivity, governance, and the ethics sensitivity of internal auditors will differ from one culture to another. The author found that internal auditor behaviour differs based on the cultural clusters. Kartal and Bozok (2011) also provided information for accountants on ethical standards and investigated the possible effect of social-cultural beliefs on accountants with regard to the Hofstede model. The authors assumed that there is a relationship between social-cultural factors and standards related to ethics. The results of their study showed a significant relationship between cultural factors such as individualism and ethical standards, for instance, objectivity. Similarly, this result agreed with the

research conducted by Venter et al. (2013). The authors hypothesised that there are factors that could affect the workplace environment, such as job satisfaction, and this effect is due to the influence of interpersonal relationships. The findings supported their hypothesis and found a positive relationship between interpersonal relationships, such as happy to help, ready to listen, a kind attitude, reliability and respect for each other.

Loewe et al. (2007) examined the influence of favouritism on the business environment in Jordon. The authors assumed in their research hypotheses that favouritism is widespread and effective in Jordon. Also, one of the authors' hypotheses was that favouritism had a negative effect on the business environment and economic improvement as well as at large because it creates injustice and inefficient business ties. The findings supported their hypothesises, and the authors suggested that to avoid struggles against such unfair treatment, several actions must be implemented, for example, increasing awareness of the negative impact of favouritism on the business environment. Moreover, Chen and Francesco (2000) examined the impact of national Chinese cultural factors which essentially concern personal relations, such as personalism and *guanxi* (personal relationship network) on organisational commitment. The study was based on 333 employees in the Republic of China. The findings showed a critical impact of such personal attitudes on organisational obligations.

With regard to independence, Hudaib and Haniffa (2009) examined the meaning of auditor independence (AI) in two countries, the United States and Saudi Arabia. The authors used discourse analysis in their study. The authors considered three categories to demonstrate auditor independence in social interaction; micro, which referred to individual self-

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reflexivity via moral reasoning and the reputation of each auditor; meso, which referred to the organisational level via a variety of commercial activities and management perceptions; and macro, which refers to the political and social-economic structure. Their results showed differences of meaning in perception based on the individual level. In addition to this, the results illustrated differences in auditor independence between two countries differences which were related to culture differences. Furthermore, Knapp (1985) examined several contextual factors that influence an auditor's independence and which also affect the users of financial statements. Examples of these factors are the nature of conflict and an individual's financial condition. The findings showed that people who have a good financial status have more influence to achieve their preferred outcomes compared to those who have less financial status. Thus, the author concluded that many factors could affect an auditor's independence; the position of individuals is an important one.

In terms of objectivity, Muqattash (2011) examined the objectivity of internal auditors in the work environment. His study was based on a sample of the bank sector in the United Arab Emirates. The author collected his data from the head of the internal audit department in each bank. The study had two hypotheses that influenced objectivity. The first was that there was a significant relationship among factors inside the internal audit department and objectivity in bank operations in banks in the United Arab Emirates. The second was that there was a significant relationship between the objectivity of internal auditors in the operating and objectivity of banks in the United Arab Emirates. The findings of this study showed support for the author's hypotheses and found a significant relationship between the factors within the internal audit department, for example, internal audit turnover for employees, formal manual, and objectivity of internal audit. Similarly, the outcomes

support the second hypothesis, which showed a significant relationship between the *Independence and Objectivity* of an internal audit.

Goodwin and Yeo (2001) examined several factors that might influence the objectivity of the internal audit function. One of the factors that could decrease the level of objectivity of an internal auditor is the behaviour of a temporary internal auditor, when management used the internal audit function as management training for potential managers in the near future. Thus, during these processes and improvements for line management positions, it is argued that an *Individual Objectivity* threat may occur. This threat may arise because the auditee might be the direct boss of the potential managers after finishing training in the audit department. Their research was conducted in Singapore and the number of outcomes showed evidence that the process of training potential managers in the internal audit department influenced the individual in the internal audit department. Brody and Lowe (2000) examined the consulting role of internal auditors as providing objective feedback to management or providing solutions, as they believe these are the great benefits of their organisations. In particular, the authors examined the judgment of internal auditors in their organisation's policy, for example, the buyer and seller purchasing a new company. The findings showed that internal auditors probably adopt the latter position which is meant to provide what is best for their organisations. Therefore, the consulting role of internal auditors should not be expanded due to the possibility of an unplanned result based on *Individual Objectivity* and a lack of independence.

With regard to corporate governance and social capital, Haniffa and Cooke (2002) examined the relationship between corporate governance, such as voluntary disclosure in

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yearly reports and family connections in Malaysian organisations. The results showed that the number of family members on the board was significant at the 5% level of significance. In addition, the authors found a negative coefficient that reflects that organisations with many family members on the board exhibit less disclosure. This result agreed with a study by Ahmed and Nicholls (1994). They found an explanation for low disclosure between the number of family members who sit on the board and less disclosure due to access to internal information that the public, such as stakeholders and shareholders, does not have. Similarly, Li and Harrison (2008) examined the structure of corporate governance and how it is employed in different countries. The authors used agency theory and institutional theory in their study. They essentially examined how local culture impact (such as power distance, uncertainty avoidance, individualism/collectivism, and masculinity/femininity) impact the size and leadership structure in an organisational board in multinational companies in industrial sectors around the globe. The results showed that the national culture has a major impact on the structure of a corporate board.

Another study consistent with the effect of corporate governance was conducted by Bae et al. (2012). The authors collected their data in different organisations in 33 countries. The authors adopted Hofstede's cultural model dimensions. Their research focused mainly on the relationship between these dimensions and the determination of dividend policy. The results showed a significant relationship between uncertainty avoidance and long-term orientation and an organisation's dividends level. Thus, in a society where uncertainty is at a high level, only organisations in nations with investors that have a stronger status pay more dividends, while in a society where the long-term dimension is strong, organisations pay fewer dividends. In addition, the findings showed that these differences in distributing

dividends are due to cultural differences. These findings also support a study conducted by Singh and Zammit (2006), who investigated the causes of the Asian crisis. The findings of this study showed three important factors that caused the Asian crisis: poor corporation governance, lacking a state of competition, and crony capitalism, which refers to close relationships between financial sectors such as banks and the government.

Paape et al. (2003) examined the relationship between the function of internal auditing and corporate governance. They conducted their study in different European organisations and distributed their survey to 105 Chief Audit Executives. The results showed that not all Chief Audit Executives behave professionally according to standards. The authors pointed out that they were not aware of corporate governance notes and obligations. Moreover, not all listed organisations in Europe have internal audit functions; a number of them do not even have an audit committee. The authors concluded that a significant percentage of Chief Audit Executives believe that they do not need to comply with the International Standards for the Professional Practice of Internal Auditing.

6.10 Summary and Conclusion

This chapter started with respondents' demographic information, such as nationality, mother tongue, gender, currently living, age, English language level, level of education, position in the internal audit, years of experience, training courses, and professional qualification CIA (Certified Internal Auditor). After that, the chapter presented two pilot studies. The first pilot study was conducted at the University of Hull at the Master level. The second was sent to internal auditors in various companies in the Kingdom of Saudi Arabia. The chapter reported the findings of both pilot studies, showing that the result of

the second pilot study was more relevant to the research hypotheses; the relationship between variables was more significant as compared to the first one. The chapter also pointed out that the reasons for this were due to the characteristics of each group of pilot respondents. The first respondents were students and most of them did not have work experience. Moreover, most of the first group did not share a similar context environment such as customs, language, and traditions. On the other hand, the second pilot study had almost the same characteristics as the main respondents. The second pilot group also shared a similar language, English language level, educational level, positions in the internal audit department, and experience.

The chapter next moved to analysis of reliability, which includes internal consistency reliability (composite reliability). The composite reliability ranged between 0 and 1, with higher values indicating higher levels of reliability. It is usually interpreted in the same way as Cronbach's alpha and the results showed high levels of internal consistency reliability. After this section, indicator reliability was presented. Indicator reliability is the square of a standardized indicator's outer loading. It reflects the variation between items under one construct and is represented to as the variance extracted from the item. The findings showed that all indicators achieved a satisfactory value and therefore, all indicators are reliable.

After reliability analysis, the validity analysis came next. The chapter reported a number of validity tests, including for example, convergent validity and discriminant validity. Convergent validity is the extent to which a measure correlates positively with alternative measures of the same construct. Utilizing the domain sampling model, indicators of a

reflective construct are processed in different ways to measure the same construct. Thus, the items that are measures of a certain construct must converge on a great amount of variance. To create convergent validity, scholars consider the outer loadings of the indicators, as well as the average variance extracted (AVE). An AVE value of around 0.50 or more shows that, on average, the construct explains more than half of the variance of its indicator. The tables and figures in this chapter that all results of Average Variance Extracted for all constructs are about .50 and there is no convergent validity problem. The next validity test was discriminant validity. Discriminant validity is the extent to which a construct really differs from other constructs by empirical standards. Thus, establishing discriminant validity means that a construct is distinctive and reflects phenomena not explained by other constructs in the model.

One way of evaluating discriminant validity is by testing the cross loadings of the indicators. Specifically, an indicator's outer loading on the related construct should be higher than all of its loadings on other constructs, for instance the cross loadings. The existence of cross loadings that exceed the indicators' outer loadings reflects a discriminant validity problem. This was further tested by the Fornell-Larcker criterion, which is a more conservative method of evaluating discriminant validity. It makes a comparison of the square root of the AVE values with the latent variable correlations. In terms of the first approach, the results showed that all indicators' outer loadings on the associated construct are greater than all of their loadings on other constructs. Based on this approach it can be concluded that there is no discriminant validity problem as well as the second method, the Fornell-Larcker measure delivered evidence for the constructs' discriminant validity. After that, the chapter reported on collinearity. Collinearity appears in the situation of a structural

model assessment when two constructs are highly correlated. If the level of collinearity is very high (a VIF value of 5 or higher), consideration should be given to removing one of the corresponding indicator(s). Overall, all values that appeared in the results are less than 5. Therefore, there are no collinearity problems.

The chapter then presented the result of path coefficient analysis. The path coefficients have standardized values between -1 and + 1. Assessed path coefficients around + 1 represent strong relationships (and vice versa for negative values) that are usually statistically significant (i.e., different from zero in the population). The nearer the assessed coefficients are to 0, the weaker the relationships. Very low values near to 0 are usually non-significant (i.e., not significantly different from zero). It seems from the findings that all relationships were significant.

The last analysis test was about the coefficient of Determination (R square Value). The most frequently used measure to assess the structural model is the coefficient of determination (R square value). This coefficient is a measure of the model's predictive accuracy and is calculated as the squared correlation between a specific dependent construct's actual and expected values. The coefficient shows the independent latent variables' combined impact on the dependent latent variable. Because the coefficient is the squared correlation of actual and expected values, it also shows the amount of variance in an endogenous construct described by all of the exogenous constructs related to it. The R square value ranges from 0 to 1 with higher levels demonstrating higher levels of predictive accuracy. It is difficult to provide ideal rules for acceptable R square values, as this depends on the model complexity and the study discipline. While R square values of 0.20 are

considered high in disciplines such as customer behaviour. The findings showed a range of

R square values and friendship was the highest one. After the analysis section, the chapter

moved to a discussion section which linked the current study with the previous studies.

7. CHAPTER SEVEN: CONCLUSION

7.1 Introduction

This chapter discusses the main conclusions of the current research and highlights the main study sections, such as study contributions, objectives, and questions, the main research design and the main method of the study, and data collection. After that, this chapter moves to main variables analysis and discusses the main findings. The second last section is about limitations, and recommendations for further research, and lastly are the conclusions.

7.2 Study Contribution

Several studies have discussed and examined a compliance with International Standards for the Professional Practice of Internal Auditing around the globe from the perspective of internal factors, for example, internal auditors' educational level (college degree), professional certificates, Certificate of Internal Auditors (CIA), membership of organisation and age of internal audit staff. These factors gave useful feedback for organisations and stakeholders about the reasons for non-compliance with the Standards from a direct and internal perspective. However, there is limited study that examined the compliance with International Standards for the Professional Practice of Internal Auditing from a wider, external and environmental perspective. Thus, the major contribution of this study was to examine social capital as an external factor that influences internal auditors in less-developed countries to comply with the International Standards for the Professional Practice of Internal Auditing. These social capital factors are personal social capital, friendship social capital, and family social capital, which affect standards, *Independence*

and Objectivity, Individual Objectivity, and *Governance* within the context of the Arab community. Other external factors that influence the standards (i.e. *Add Value*, *Residual Risk*) are *Linguistic Social Capital* through *Understanding* and *Translation*. This influence is because of language differences between home and host countries.

A second important contribution to this study is that it used cultural factors (social capital) that suit the Arabic environment, rather than focusing on the same model that most studies used, known as Hofstede's model with five main dimensions as follows: Power Distance (PD), Uncertainty Avoidance (UA), Individualism and Collectivism (IDV), Masculinity-Femininity (MAS), and Long term- Short term orientation (LSO). This is a well-established model that has been used for a long time but it may not fit or not be suitable for all current communities. Therefore, one of the primary significant contributions of this study is that it examined social capital as a major independent variable that affects internal auditors' compliance with International Standards for the Professional Practice of Internal Auditing from an environmental perspective.

A third contribution is related to the internal audit profession. The nature of accounting standards is very different from internal auditing standards in terms of standards objectives and purposes. Thus, this study contributes to the literature by focusing more on the International Standards for the Professional Practice of Internal Auditing rather than International Accounting Standards.

The fourth contribution regards the professional field, the first part of the Certified Internal Auditor (CIA) exam (in 2013), still relies on Hofstade's model, which is over thirty years

old. Therefore, another contribution from this study is to educate and provide new perspectives to professional authorities and practitioners, such as the Institute of Internal Auditors and its members, to help them to have deeper *Understanding* of international communities in the home country of the Standards, which is the United States. Furthermore, this study provides a comprehensive perception of the host country, Saudi Arabia, to understand threatening external and environmental factors that could hinder compliance with the International Standards for the Professional Practice of Internal Auditing, such as *Relational Social Capital* (personal social capital, friendship social capital, and family social capital) and *Linguistic Social Capital* (*Understanding* and *Translation*). In addition to this, the Chief Audit Executive, top management, and audit committee in companies can understand how external factors can influence the International Standards for the Professional Practice of Internal Auditing. This may lead them to ignore the cultural effects, which might cause a negative impact on the rule of the internal audit and its effectiveness.

The fifth contribution of this study is related to theoretical background. One of the important research contributions is that this study uses the Throughput Model that provides a broad conceptual framework for examining interrelated processes that impact decisions affecting organizations. This model consists of four components which make up the throughput model, Information (I), Perception (P), Judgment (J) and Decision (D) and these are linked by six possible pathways. This model has not been used to examine factors that affect internal auditing especially in professional standards such as *Independence and Objectivity, Individual Objectivity*, and *Governance* or to any related factors to social capital such as Friendship Social Capital, Personal Social Capital, and Family Social

Capital. The sixth contribution of the study is that this study uses modern software: Partial Least Squares Structure Equation Modelling (PLS-SEM), which was used to analyse the relationship between variables and constructs.

7.3   Study Objectives and Questions

The main objective of this research was to examine *foreignness* as a major variable that affects internal auditors' compliance with the Standards from an environmental perspective. Thus, social capital as an environmental factor is the main factor in this study, which is divided into two main sections. The first is *Linguistic Social Capital*, which includes *Understanding* and *Translation* constructs. The second is Relational Social Capital, which includes personal social capital, friendship social capital, and family social capital. Therefore, the first objective is to examine the *Understanding* and practice of the Standards of internal auditors for whom English is not the first formal language. Therefore, the first question emerges from this objective, as follows: Question 1: do internal auditors who do not speak English as a first language fully understand and implement the International Standards for the Professional Practice of Internal Auditing? This question can be broken down into two sub questions: Question 1 a: do internal auditors who do not speak English as a first language fully understand and implement the *Residual Risk* term? Question 1 b: do internal auditors who do not speak English as a first language fully understand and implement the *Add Value* term?

The second objective is to examine the *Translation* of the International Standards for the Professional Practice of Internal Auditing whom English is not the first formal language. Therefore, the question emerging from this objective goes thus:

Question 2: Do internal auditors who do not speak English as a first language fully understand the translation of the International Standards for the Professional Practice of Internal Auditing in their local language?

This question can be broken down into two sub-questions:

Question 2 a: Do internal auditors who do not speak English as a first language fully understand the translation of *Residual Risk* term in their local language?

Question 2 b: Do internal auditors who do not speak English as a first language fully understand the *Add Value* term after translation in their local language?

The third objective of this study depicts the influences of host country *Relational Social Capital* on internal auditors on the International Standards for the Professional Practice of Internal Auditing. Consequently, the next questions based on this objective will be:

Question 3: Does the *Relational Social Capital* in host country affect compliance with the International Standards for the Professional Practice of Internal Auditing? This objective and question can be broken down into nine sub-objectives and questions as follows:

Objective 3.1. This sub-objective examines the effect of *Family Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standard number AS 1100. Its sub-question is as follows:

Question 3. 1: Does the *Family Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding *Independence and Objectivity* standard number AS 1100?

Objective 3. 2: This sub-objective examines the effect of *Family Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing,

regarding *Individual Objectivity* standard number AS 1120 and its sub-question is as follows:

Question 3. 2: Does the *Family Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standard number AS 1120?

Objective 3.3. This sub-objective examines the effect of *Family Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standard number PS 2110 and its sub-question is as follow;

Question 3. 3: Does the *Family Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Governance* standard number PS 2110?

Objective 3. 4. This sub-objective examines the effect of *Friendship Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Independence and Objectivity* standard number AS 1100. Its sub-question is as follows:

Question 3. 4: Does the *Friendship Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standard number AS 1100?

Objective 3. 5. This sub-objective examines the effect of *Friendship Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standard number AS 1120. Its sub-question is as follows:

Question 3. 5: Does the *Friendship Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Individual Objectivity* standard number AS 1120?

Objective 3. 6. This sub-objective examines the effect of *Friendship Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standard number PS 2110 and its sub-question is as follows;

Question 3. 6: Does the *Friendship Social Capital* influence internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standard number PS 2110?

Objective 3. 7. This sub-objective examines the effect of *Personal Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Independence and Objectivity* standard number AS 1100 and its sub-question is as follows;

Question 3. 7: Does the *Personal Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Independence and Objectivity* standard number AS 1100?

Objective 3. 8. This sub-objective examines the effect of *Personal Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Individual Objectivity* standard number AS 1120 and its sub-question is as follows;

Question 3. 8: Does the *Personal Social Capital* influence internal auditors from complying with International Standards for the Professional Practice of Internal Auditing, *Individual Objectivity* standard number AS 1120?

Objective 3. 9. This sub-objective examines the effect of *Personal Social Capital* in compliance with International Standards for the Professional Practice of Internal Auditing, regarding *Governance* standard number PS 2110 and its sub-question is as follows:

Question 3. 9: Does the *Personal Social Capital* affect internal auditors from complying with the International Standards for the Professional Practice of Internal Auditing, *Governance* standard number PS 2110?

7.4 Research Method

The main approach of this study is to use a quantitative method. A survey questionnaire design with a 7-point scale (1= strongly disagree, 7= strongly agree) was used in this study to achieve the research objectives and answer the research questions. 349 questionnaires were distributed to internal auditors in listed Saudi companies. The questionnaire was sent to internal auditors in various positions (CAE, director, manager, supervisory level, senior auditor, and entry level) to examine the impact of *foreignness* on compliance with the international standards in the professional practice of internal audit departments in Saudi Arabia. In order to get more responses to the questionnaire, formal permission was arranged from the Saudi Arabian Culture Bureau in London clarifying that the questionnaire was purely for academic and scientific reasons. The questionnaire was pilot-tested and submitted to the Ethical Committee at the Hull University Business School and approved after some changes. The original draft of the questionnaire was designed in English and then translated into Arabic, the language of Saudi Arabia (Arabic).

The IIA-KSA translated the International Standards for the Professional Practice of Internal Auditing with the aid of a group of professional internal auditors in Lebanon consisting of Carine Asso, Wafa Abed, and Naji Fayad.

In terms of questionnaire design, the questionnaire was designed in English and then translated into Arabic, the language of Saudi Arabia. Intentionally, the questionnaire

translation was done by a translation office in Saudi Arabia, but the translation was not accurate (which was one of the main research problems). Therefore, the researcher translated it with the aid of a group of PhD students in Hull University Business School, who were native Arabic speaker.

The reason why the researcher chose Saudi Arabia is because all independent variables can be implemented in this country; the formal language in Saudi Arabia is not the same as that of the standards. The business environment in Saudi Arabia has numerous successful American and European organisations, and the culture in Saudi Arabia, for instance loyalty to family, personal relationship, and friendship encouraged the researcher to implement the study in this country. In addition to this, at the time of the study, several countries such as Egypt, Libya, Tunisia, Iraq, Yemen and Syria were suffering from instability as a result of the Arab Spring. Therefore, the researcher has selected Saudi Arabia because it was safe to do research there.

7.5 Findings

In terms of the *Relational Social Capital* with independence and objectivity, around 30 per cent of non-compliance with the *Independence and Objectivity* standard is explained by personal social capital, friendship social capital, and family social capital, while the influence of *Personal Social Capital* on the standard AS 1100, Independence and Objectivity, is .23 (β = 23.7%). The same standard is impacted by .15 (β = 15.7%) from friendship social capital. *Family Social Capital* account for .27 (β = 27.30%) on AS 1100. In regard to the significance of relationships between all relational constructs and the *Independence and Objectivity* standard, all values for association between friendship social capital, personal social capital, and *Family Social Capital* and the *Independence and*

Objectivity standard are significant because all values are above 1.96, being 2.495, 3.415, and 4.491, respectively. Furthermore, the second endogenous variable which has a relationship with the relational construct is the *Individual Objectivity* standard AS 1120, where .281 of non-compliance is explained by friendship social capital, personal social capital, and family social capital. Moreover, the *Personal Social Capital* impact on the *Individual Objectivity* standard AS 1120 is .23 (β = 23.10%), whereas the effect of *Friendship Social Capital* on the *Individual Objectivity* standard is β = 20.2%. *Family Social Capital* also has its influence on the same standard of .21 (β = 21.1%).

In regard to the significance between all relational constructs and the *Individual Objectivity* standard, all values for association between friendship, personal relationship and loyalty to family and the *Individual Objectivity* standard are above 1.96, at 3.317, 3.597 and 3.614 respectively.

With regard to the *Governance* Standard PS 2110, 16.2% is the percentage explained by friendship social capital, personal social capital, and Family Social Capital. Furthermore, the results showed that *Friendship Social Capital* has an impact on the *Governance* Standard of 11.3% (β = .113), whereas the impact of *Personal Social Capital* on the *Governance* Standard is around 30% (β = .296). In addition, the influence of *Family Social Capital* on the *Governance* Standard is 5.3% (β = .053). From a significance point of view, there is a significant relationship between personal relationship and *Governance*. However, there are a non-significant relationship between friendship, and loyalty to family, and *Governance* because both values are below 1.96.

From the language point of view, there are two main endogenous variables. The first one is the *Add Value* term and the other is the *Residual Risk* term. Also there are two main exogenous variables, *Understanding* and *Translation*. It can be observed from the result that the *Add Value* term explained .107 per cent of non-fully compliance with the standard, affected by *Understanding* and *Translation*. In addition to this, the result also showed that the *Understanding* construct influences the *Add Value* term, $\beta = 27\%$, and the same term is impacted by the *Translation* construct as well, $\beta = 16.4\%$. Both exogenous variables have a significant relationship (above 1.96) with the *Add Value* term, at 5.747and 2.704 respectively.

In regard to the *Residual Risk* construct, it can be claimed that .069 of it is explained by the *Understanding* and *Translation* constructs. Furthermore, the findings showed that Residual Risk is influenced by the *Understanding* construct and the beta is $\beta = 22.9\%$. The same term is impacted by the *Translation* construct as well, $\beta = 11.3\%$. In terms of a significant relationship between language constructs, *Understanding* and *Translation*, and the *Residual Risk* term, the relationship is significant because both relationship values are above 1.96.

In regard to information and its relationship to the exogenous variables, the information has two main factors, position in the internal audit department and English language level. It was seen from the Figure 13 that there are two relationships between information and language, *Understanding*, and three relationships between information and Relational Social Capital, friendship, personal relationship and loyalty to family. The strongest relationship between the information and these five constructs was with *Understanding*. It is explains about 42 per cent and the relationship is significant, because the bootstrapping

value is 8.369, which is above 1.96. The second position is for loyalty to family and personal relationship, with values of .124 and .109 and both have significant relationships with information, of 2.06 and 2.02 respectively. However, the *Translation* and friendship constructs achieve the weakest relationships values with information and also these are non-significant relationships, because both constructs have values below 1.96.

7.6   *Implication, limitations and Further Studies*

In terms of implications, the approach of this study was quantitative. The researcher used a questionnaire to solicit answers to the research questions and achieve research objectives. As a result, many respondents might have tried to answer the questionnaire by reflecting an ideal status rather than an actual attitude in the real professional world. Another implication is that this type of approach does not reflect the real case in depth compared to the interview approach.

With regard to limitations, this study has many. For example, one limitation is that the data was collected from internal auditors who worked for listed companies in the Saudi Joint Market and ignored other non-listed companies, not in the Saudi Market. For example, family companies would be worthy of study because the *Relational Social Capital* might exist at a higher level in these kinds of companies.

Another reason why family companies are recommended for future studies is because the scheme of corporate governance in these companies is less controlled compared to the corporate governance in the listed companies. The reason for that is because the main

function of establishing the Capital Market Authority in the Kingdom of Saudi Arabia was to regulate and improve the market by issuing policies and rules that meet the enriched investment environment in listed companies rather than non-listed companies. However, the main reason why the researcher did not include these types of companies in the current study is because of the limitation of access with respect to data collection in non-listed companies. Therefore, one of the recommended future studies is to conduct a qualitative study that investigates more variables and factors that might influence incomplete compliance with the International Standards for the Professional Practice of Internal Auditing. Another recommended for future study is to research family companies in the kingdom of Saudi Arabia because the independent variables of this study match the environment of family organisations, such as family relations, friendship relationships, and favouritism.

One of the limitations of this study is that respondents may not reflect the actual or current status. It is difficult to tell how truthful a respondent is being. As a result, many respondents may have tried to answer the questionnaire by reflecting an ideal status rather than an actual attitude in the real professional world.

Another limitation related to the questionnaire approach is that respondents may not fully understand specialized terminology, such as Relational Social Capital and that may cause misunderstanding of questions that have similar professional terms. In addition, Phenomenologists state that the quantitative method is an artificial creation by the scholar, as it is requests a very specific and limited information, with no further description, and there is no chance of knowing how much thought a respondent has given to the answer. Moreover, respondents may forget or not think carefully about the whole context of the

situation. Furthermore, because individuals have different perceptions they may read question differently and react to them in different ways. For example, what is good for one person may it be not for others. Vastly of various perception may cause a degree of subjectivity in many cases.

In addition to this, there is a degree of scholar imposition, among that the researcher may assume that certain factors are important and ignore or miss others. Also, the approach of using open ended questions may cause a high level of possibility of subjectivity by the researcher. An additional concern with regard to questionnaire design is that a 6 sided questionnaire was too long for a few respondents, especially those in high level positions in the internal audit department, such as Chief Audit Executive and audit manager, because individuals in such positions are very busy with work commitments.

In addition to this the researcher used a questionnaire to solicit answers to the research questions and achieve the research objectives. As a result, some respondents may have tried to answer the questionnaire by reflecting an ideal status rather than an actual attitude in the real professional world. Another limitation is that this type of approach does not reflect the real case in depth compared to the interview approach. In addition to this, the data collection period was limited and the researcher did not have an opportunity to include all types of organisations in this study. This implies that the outcomes of this study not necessarily reflects the situation in all companies in Saudi Arabia. Another important factor that affected the study is the research fund. Thus, the absence of such element limited the study. Moreover, cultural factors in the International Standards for the Professional Practice of Internal Auditing are based on an old model that applied a long time ago, which does not fully consider and suit the Saudi or Arab environment. Another limitations that related to

the questionnaire approach is that respondents may not fully understand all terms such as Relational Social Capital and that may cause misunderstanding of questions that have similar professional terms. In addition, Phenomenologists state that quantitative method is like an artificial creation by the scholar, as it is requesting very specific and limited information with no further description, and there is no chance of knowing how much thought a respondent has given to the answers. Moreover, the respondents may forget or not think carefully about the whole context of the situation. Furthermore, because individuals have different perceptions they may read questions differently and react to them in different ways. For example, what is good for one person may not be for others. Difference in perceptions may cause a degree of subjectivity in many cases. In addition to this, there is a level of scholar imposition whereby the researcher may assume that certain factors are important and ignore or miss others. Also, the approach of open ended questions may cause a high level of possibility of subjectivity in respondents' answers and the researcher's interpretation of them. Another limitations of this study concerned the sample. Not all internal auditors were included because some internal auditors were busy with their duties and did not have time respond and other refused to answer due to their company's confidentiality policy. Moreover, some internal auditors may not have delivered honest opinions due to lack of the knowledge or to avoid any possible disadvantages of their organisation. Such problem are common in studies that use questionnaires. An additional limitation was with regard to questionnaire design. A six sided questionnaire was too long for a few respondents, especially these in high level positions in the internal audit department such as Chief Audit Executive and audit manager, because individuals in such positions are busy with their work commitments. Another limitations is that the data was collected from listed companies in the Saudi Joint Market and ignored other non-listed

companies, not in the Saudi Market. For example, it would have been beneficial to consider family companies, because relational social capital exists at a high level in these types of companies.

Furthermore, another important limitation of this study was the difficulty in obtaining the opinions and experience of Saudi women because the number of female internal auditors was very limited in listed companies. This, it is not really clear how far the limited number of Saudi women who practise internal audit may reflect a difference in compliance with the International Standards for the Professional Practice of Internal Auditing.

In relation to further study, family companies are recommended for future studies because the scheme of corporate governance in these companies is less controlled compared to the corporate governance in the listed companies. The reason for that is because the main function of establishing the Capital Market Authority in the Kingdom of Saudi Arabia was to regulate and improve the market by issuing policies and rules that meet the enriched investment environment in listed companies rather than non-listed companies. However, the main reason why the researcher did not include these types of companies in the current study is because of the limitation of access with respect to data collection in non-listed companies. Another recommendation would be to use a mixed method approach, starting with interviews to investigate several cultural themes in the Saudi context and then conduct a survey to examine the effect of the resulting themes on the compliance with the International Standards for the Professional Practice of Internal Auditing.

Moreover, one of the recommended avenues for research is to conduct such studies in other Arab countries, such as Gulf countries, which have similar culture contexts and examine the effect of these characteristics on the compliance with the International Standards for the Professional Practice of Internal Auditing. This may indicate the extend of the generalisability of the research. Another important factor which can enhance the study would be to include various types of companies by getting research funding from accounting, auditing, and academic institutions after explaining the prospective benefits of doing such research.

A further dimension of analysis could be provided by grouping respondents based on their nationality. These categories can help scholars to examine the effect of non-Saudi or non-Arab speakers on compliance with the international Standards for the Professional Practice of Internal Auditing.

Based on the current cultural situation the Saudi Arabia, the Institute of Internal Auditors, in the Kingdom of Saudi Arabia may think about developing specific sub-standards which would be more suitable to its environment. Listed companies should pay greater attention to Relational Social Capital and Linguistic Social Capital. Moreover, internal auditors in the Saudi Market should improve their skills and quality as Certified Internal Auditor (CIA) in order to increase the awareness of compliance with the international Standards for the Professional Practice of Internal Auditing.

Further studies can be conducted by the Institute of Internal Auditors, in the Kingdom of Saudi Arabia to explore Saudi cultural values and traditions that may affect the Saudi work

environment. In addition to this, because the international Standards for the Professional Practice of Internal Auditing in the Kingdom of Saudi Arabia were translated into Arabic in Lebanon. It may be that a more suitable translation could be obtained if these standards use translated by Saudi internal auditors who are more understanding of Saudi cultural terms. Due to the limited number of CIAs in listed companies, The Institute of Internal Auditors in the Kingdom of Saudi can also increase the awareness among internal auditors to set for CIA exams and obtain the professional certificate, and this can be achieved by increasing training courses for example.

Moreover, The Institute of Internal Auditors in the Kingdom of Saudi Arabia should work closely with Saudi universities to try and improve the content of the internal auditing educational background and encourage universities to offer some courses related to the international Standards for the Professional Practice of Internal Auditing in order to increase students' skills in the use of the standards.

Furthermore, academics, professionals and experts should be engaged in a debate in the impact of attitude users in relation to the international Standards for the Professional Practice of Internal Auditing. In addition to this, workshops are required by professional and experts from outside the Kingdom of Saudi Arabia. For example the Institute of Internal Auditors in the Kingdom of Saudi Arabia can arrange workshops and seminars with the Institute of Internal Auditors in the United States of America, to be conducted in Saudi Arabia, to give lectures on the international Standards for the Professional Practice of Internal Auditing and discuss critical issues between the home country that issued the standards and the host country that uses and adopts the standards.

In addition, due to the limited number of female internal auditors in listed companies, further research could be conducted in non-listed companies, for example to get a comprehensive understanding of the Saudi women's perspective with regard to Relational Social Capital and Linguistic Social Capital.

Further competitive studies between different contexts may be beneficial to explore whether there are differences in compliance with the international Standards for the Professional Practice of Internal Auditing. For instance, research could examine same variables that have been used in this study, to what extend they may apply in non-Arab countries, such as The United States of America.

Moreover, Saudi government authorities such as the Capital Market Authority (CMA) can pay more attention in its policy to the characteristics of the Saudi community culture that might affect the work environment negatively. For example, additional roles can be implemented by spending more awareness in the Saudi Market about the negative effect of social capital on compliance with the standards. In addition to this, some penalties can be imposed in employees who practise this kind of unethical behaviour after certain warnings. One suggestion for research is to group respondents based on their nationality. These categories can help scholars to examine the effect of being non-Saudi or non-Arab on compliance with the international Standards for the Professional Practice of Internal Auditing.

7.7   Summary and conclusion

The chapter started with an overview, then focused on the main sections of the theses, such as contribution, which includes six points; concerning external factors rather than internal ones, using a social capital point of view such as personal social capital, friendship social capital, and *Family Social Capital* instead of Hofstede's model, with five main dimensions (Power Distance (PD), Uncertainty Avoidance (UA), Individualism and Collectivism (IDV), Masculinity-Femininity (MAS), and Long term- Short term orientation (LSO)), and focusing more on the International Standards for the Professional Practice of Internal Auditing rather than the International Accounting Standards and, in terms of the professional field, the first part of the Certificate Internal Auditor (CIA) exam (2013). still relies on Hofstade's model, which is over thirty years old. Therefore, another contribution from this study is to educate and provide new perspectives to professional authorities and practitioners. Furthermore, this study provides a comprehensive view of the host country, such as the kingdom of Saudi Arabia, to understand threatening external and environmental factors that could hinder compliance with the International Standards for the Professional Practice of Internal Auditing.

Another contribution of this study is related to the theoretical background. One of the important research contributions is that this study uses the Throughput Model which provides a broad conceptual framework for examining interrelated processes that impact decisions affecting organizations. This model contents of four components which make up the Throughput Model, Information (I), Perception (P), Judgment (J) and Decision (D) and these are linked by six possible pathways. This model has not been used to examine factors that affect internal auditing especially in professional standards such as *Independence and*

Objectivity, Individual Objectivity, and *Governance* or to any related factors to social capital such as Friendship Social Capital, Personal Social Capital, and Family Social Capital. The final contribution of this study is that it uses modern software, Partial Least Squares Structure Equation Modelling (PLS-SEM), which is used to analyse the relationship between variables and constructs.

After that, the chapter moved on to study objectives and questions. In terms of questions, the study has addressed two main questions. The first was related to linguistics and practical concerns about the *Understanding* and *Translation* construct, examining the influence of these constructs on compliance with professional internal auditing terms such as *Add Value* and *Residual Risk*. The second main question was focused more on *Relational Social Capital* such as personal social capital, friendship social capital, and *Family Social Capital* and its impact on compliance with the International Standards for the Professional Practice of Internal Auditing, such as *Independence and Objectivity, Individual Objectivity*, and *Governance*.

Next, the chapter presented the research design. The study was based on the quantitative method and used a questionnaire to collect the data. The study pointed out that the questionnaire collected information from internal auditors in the Saudi listed companies; the total number of collected questionnaires was 349.

After that, the chapter moved on to the findings and presented the main research outcomes. The results showed an effect of both types of social capital on compliance with the International Standards for the Professional Practice of Internal Auditing. However, the

findings illustrated that the influence of *Relational Social Capital* on the standards is higher than *Linguistic Social Capital*. The impact of friendship social capital, personal social capital, and *Family Social Capital* on the *Independence and Objectivity* obtained the higher effect; the R square is .305. whereas the lowest percentage of influence (R square) on *Residual Risk* is .069. This is influenced by *Translation* and *Understanding* constructs in the linguistic dimension. The second highest influence occurs through relational social capital, friendship social capital, personal social capital, and *Family Social Capital* on the *Individual Objectivity* standard. The R square of AS 1120, Individual Objectivity, is .281. The next highest influence on the International Standards for the Professional Practice of Internal Auditing is on AP 2110 *Governance*. The R square of the *Governance* standard is .162 and this influence occurred through friendship social capital, personal social capital, and family social capital. The second lowest effect is on *Add Value* term, for which the R square is .107, and this construct is affected by the *Understanding* and *Translation* constructs. In terms of beta β, the highest β is .296, which occurred between *Personal Social Capital* and *Governance* standard AP 2110. The second highest β is family social capital; its influence on the *Independence and Objectivity* standard AS 1100 is β = .273. The next highest beta occurred in the linguistic dimension, which occurred between the *Understanding* construct and *Add Value* construct, β = .270. The next highest beta is in *Relational Social Capital* and that practically occurred between *Personal Social Capital* and the *Independence and Objectivity* standard, AS 1100, β = .237. After that, the influence of *Linguistic Social Capital Understanding* on the *Add Value* construct is as follows. The beta of this impact is β = .229. The influence of *Family Social Capital* on *Individual Objectivity* is next, and the beta is β = .211. The impact of *Friendship Social Capital* on Individual Objectivity is next, with β = .202. However, the lowest influence occurred

between *Family Social Capital* and *Governance* standard AP 2110, with $\beta = .053$. The next lowest beta is on the *Governance* standard, which is affected by *Friendship Social Capital* $\beta = .113$. Similarly, the same influence of the previous effect occurred between *Linguistic Social Capital*, *Translation* and *Residual Risk* construct, which is $\beta = .113$. The influence of *Friendship Social Capital* on *Independence and Objectivity* is $\beta = .157$ and the effect of the *Translation* on the *Add Value* term is $\beta = .164$. After that, the chapter moved to implications, limitations, and recommendations for further studies.

All in all, it can be claimed that there is an influence of social capital on compliance with the International Standards for the Professional Practice of Internal Auditing. However, the influence of the *Relational Social Capital* type which includes personal social capital, friendship social capital, and *Family Social Capital* is higher than *Linguistic Social Capital* that includes *Understanding* and *Translation*.

With regard to implications, the main approach of this research is quantitative and the method of collecting data is a questionnaire in order to answer research questions and achieve research objectives. Although the cost of this approach is reasonable, the disadvantage of this method is that many respondents tried to answer the questionnaire by reflecting an ideal status rather than an actual attitude in the real, professional world. Furthermore, another implication is that this type of approach does not reflect the real case in depth compared with the qualitative approach, such as interviews.

In terms of limitations, this study has several. One of these limitations is that the data was collected from listed companies in the Saudi Joint Market; the study disregarded other, non-

listed companies in the Saudi Market. For instance, a limited number of family companies in the Saudi Market are suitable for this study because *Relational Social Capital* exists at a high level in these kinds of companies. Furthermore, because the current study was conducted in the kingdom of Saudi Arabia, the researcher cannot generalize the outcomes to Gulf or Arab countries. Another reason why family companies are important is because their policies and procedures of corporate governance are less controlled compared with the corporate governance procedures and influences in Saudi listed companies. The reason for that is because the main function of establishing the Capital Market Authority in the kingdom of Saudi Arabia is to control and improve the market by issuing policies and rules to meet the enriched investment environment in listed companies rather than non-listed companies. However, the main reason why the researcher did not include these kinds of businesses in the current research is because of the limitation with respect to data collection in these companies. Therefore, one of the recommended future studies is to examine the effect of external factors on the International Standards for the Professional Practice of Internal Auditing in non-listed companies in Saudi Arabia because the independent variables of this study match the environmental factor of family organisations such as family relations, friendship relationships, and favouritism. In addition to this, one of the suggestions for future studies is to conduct this kind of study in various Arab countries in order to generalize the results.

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