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Article

Can Sustainable Corporate Governance Enhance Internal Audit Function? Evidence from Omani Public Listed Companies

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Abstract: With the application of the agency theory and institutional theory, this study is intended towards the measurement of sustainable corporate governance (SCG) impact on internal audit function (IA) within Omani public listed companies. This study will also theoretically consider the Chinese investment in Oman and its potential impact on Oman's corporate governance. For this study, SCG is an independent variable and IA is the dependent variable. This study used a descriptive cross-sectional survey design. Data is collected by an internet-based tool and analyzed via PLS-SEM and SPSS. Result suggests that SCG has a significant and direct relationship with IA. In order to attract and sustain Chinese investment and to achieve SCG, this study can assist regulators, professional bodies, and organizations in amending their codes of corporate governance and organizational policies by introducing SCG clauses into their policies and codes with emphasis on the protection of foreign investors. To the best of the knowledge of the researcher, this study is unique, as previous studies demonstrate the IA on SCG, whereas this study emphasizes that SCG can impact the control functions within organizations that also include IA.

Keywords: sustainable corporate governance; internal audit function; public listed companies in Oman; Chinese investment in Oman



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1. Introduction

In the current business environment sustainable corporate governance (SCG) is necessary to provide positive environmental, social, and economic developments (Krechovska and Prochazkova 2014). The SCG and internal audit function (IA) are the two main pillars necessary towards effective business sustainability and business growth. SCG can only be achieved once the organizations have strong internal controls and compliance functions (Lombardi et al. 2019; Crifo et al. 2019) and IA with its capability and competence is best suited towards enhancing controls and implementing total compliance (Mock et al. 2017; Yee et al. 2008).

SCG can be defined as a system which can contribute to the achievement of a well-functioning board of directors (BOD), effective audit and risk committee (ARC), beneficial nomination and remuneration committee (NRC), and considerate executive management (EM) (Lombardi et al. 2019; Crifo et al. 2019). BOD, ARC, NRC, and EC are also described as the main constituents of corporate governance (Rehman and Hashim 2020; IFAC 2016), and are required to approve and implements policies which eventually lead towards achievement of SCG.

SCG is the requirement for business persistence and continuation (Jarmai et al. 2020). In accordance with the recent survey, 66% of organizations acknowledge that SCG is important for the organizations; however, only 22% believe that their BOD is providing proper oversight and attention towards SCG (WBSCD 2020). SCG is not incorporated into all business processes (Krechovska and Prochazkova 2014), and is not even included/covered in the current Omani codes of corporate governance (CMA 2020). Furthermore, external auditors are performing corporate governance compliance assignments under International Standards of Auditing, but do not provide any opinion on SCG informing that whether

organization has achieved or not achieved SCG (Garrow et al. 2019). Within the Omani market, limited research is available in the field of SCG. Regulators also do not encourage organizations to communicate their SCG or related initiatives to stakeholders or shareholders. Only compliance with corporate governance codes and financial reporting standards receives significant attention.

Problems which arise due to non-implementation of SCG are driven by both market and regulatory failures. Commercial laws and regulations oblige BOD to act in the interest of the company as a whole (Grove and Clouse 2017), however, BOD and EM focus towards short term profit taking so that they can please the shareholders. Furthermore, BOD's remuneration and EM's bonuses are also linked to such financial performance which does not seek sustainable growth, but rather focuses on short term profitability (Lombardi et al. 2019). Such market failure is the result of deficiencies in corporate governance (Commission 2020).

Oman's corporate governance is not as mature as that of other developed nations (Rehman and Hashim 2019). Moreover, corporate governance codes do not provide any clause to raise corporate governance to the level of sustainability. This study is motivated by the fact that SCG is important for the organizational future, and that by adopting the recommendations and available international guidelines, current codes of Oman can improve. This improvement can also impact the internal audit function, as this function is charged with the evaluation and improvement of organizational governance process; moreover, SCG can also attract further investments from China, which is the key player in one belt one road operations. This study does not do an empirical analysis of the potential impacts of Chinese investment on corporate governance in Oman, but the topic is theoretically examined. However, this paper can become a guide for future research areas where SCG and Chinese investment can be empirically researched.

Despite the non-mature corporate governance, the recent past has witnessed massive investment by China in Oman due to Oman's strategic oceanic location, authority in energy markets, and independent foreign policy (Chaziza 2019). China will invest USD 20 billion over the period of five years (Han and Chen 2018); however, investment can face serious risk if the codes of corporate governance are not amended to cater the needs of Chinese investments. The current code of corporate governance in Oman does not cater for the foreign national (expat) BOD, protection of foreign investors, and its related investment. Due to the absence of these major codes, along with non-availability of SCG clauses, Chinese investment could be at risk. In the absence of SCG, there could be a policy shift or change in the manpower requirements which can hinder the potential benefits for China against its investment.

IA is the compulsory function in the codes of corporate governance (CMA 2020) and it is governed by the policies and procedures defined by the BOD. These policies define IA's independence and provide assurance towards its objectivity. IA is required to report to the ARC (CMA 2020). Reporting to ARC is essential towards eliminating the influence of organizational management on IA's function and mode of operations (MacRae and Gils 2010). BOD and ARC are the main constituents of SCG and their defined policies and support can increase or decrease the IA's independence, objectivity, and their services for the shareholders. In other words, SCG can impact the IA towards its operations and its functionality. IA is considered as third line of defense (Roussy and Rodrigue 2018), but without the positive and significant impact of SCG, IA will not be able to provide the required protection and defense.

IA is an activity which assists towards achievement of organizational goal and objectives. IA performs tasks by evaluating controls and governance processes (IIA 2020). IA is the necessary part of codes of corporate governance and also works as an internal assurance authority (CMA 2020). IA plays a major role in checking the implementation of controls, identifying the weakness in systems, and also providing recommendations (Eulerich et al. 2019) which can eventually lead towards the achievement of satisfied shareholders. IA for public listed companies in Oman is provided with additional authority and reporting

responsibility, which enhances IA's objectivity and independence. It is worth mentioning that there are several studies conducted for the role of IA with corporate governance; however, our research was not able to find any study which can demonstrate the positive or negative association of SCG with IA.

Incorporating both the agency theory and institution theory, this study examines the impact of sustainable corporate governance on the internal audit function within Omani public listed companies. A theoretical analysis will also be conducted in this paper, focusing on Chinese investments in Oman and the potential effects they could have on Oman's corporate governance. This study proposes that SCG (independent variable) has a significant direct relationship with IA (dependent variable). SCG, with the application of institutional theory, can be considered as core of governance system which can drive organizations towards sustainability path. This study is unique because up to the best of the knowledge of researchers, there is no study conducted before which verifies the SCG impact on IA; moreover, previous relevant studies verify only one constituent for sustainable corporate governance, whereas this study is identifying four constituents necessary for SCG, namely BOD, ARC, NRC, and EM.

This study can assist regulators, professional bodies, and organizations in amending their codes of corporate governance and organizational policies by introducing the SCG clauses into their policies and codes. Furthermore, and in order to attract and sustain Chinese investment, this study can also assist regulators in amending the codes of corporate governance by introducing clauses related to the protection of foreign investors. Professional bodies can also amend their standards by incorporating the sustainable clauses which can enhance the IA's capability and competence.

2. Literature Review

This section will cover the relevant literature for the IA, SCG, Chinese investment in Oman, and will also cover a brief description for the public listed companies in Oman. This section will also highlight the relevant theories which can be associated with two variables.

2.1. Internal Audit Function

Internal audit function (IA) is objective assurance activity available within the organization and provides satisfaction to stakeholders towards effectiveness of organizational operations and governance (Florea and Florea 2016). IA is an integral part of any organization and can be supported by SCG (Cioban 2016). IA as a profession is governed by their framework, issued by the Institute of Internal Auditors. Independence, objectivity, and assisting organizations to improve risk and governance process are three main core functions of IA (IIA 2020). Independence is necessary for IA to be objective, as it can enhance IA's operations, reduce organizational management's influence (MacRae and Gils 2010), and provide better risk and governance services.

In the current business environment, governance management is expecting more from IA, and for this reason IA is also required to be transformed itself from being traditional auditor to agile auditing (Jr 2020). Agility in IA can enhance efficiency, create value driven insights, and also develop risk agility. IA has been recognized as an essential activity towards corporate performance, with the aim to enhance the quality of financial information and to provide much needed transparency (MacRae and Gils 2010). IA in Oman is reporting only to the ARC, which in turn reports to BOD (CMA 2020). Although the role of IA is independent from organizational management, it is driven by the approvals and authorities provided by BOD and ARC. Furthermore, BOD is also approving other organizational policies which can have a direct impact on IA's function. Since BOD and ARC are the major constituents of SCG, it can therefore be inferred that SCG can have a major impact on IA.

The BOD and its related committees are responsible for the approval of policies and overseeing organizational management's performance, with a goal of creating sustainable values for all stake holders (Julien and Richards 2008). Being a strategic resource and

the best control activity available within an organization, it is required from IA to be proactive and interactive with the BOD, ARC, and NRC as the facilitator of SCG. With the support from BOD and its related committees, IA can integrate information across the organization to improve governance and risk management, can apply professional and sustainable practices uniformly, and can also timely identify the control weakness within the organizational system. IA can, in some cases, become the driver for sustainable process, but organizational-wide EM support is required (Julien and Richards 2008), along with the approved policies from BOD. In all cases, and in order to maintain independence, IAs cannot be the owner of the process (Rahayu et al. 2020), including the process of SCG, and IA's performance is dependent upon the policies defined by SCG's constituents (IIA 2016).

2.2. Sustainable Corporate Governance

Sustainable corporate governance (SCG) is not only important for organizations, but can also be considered as essential for society. SCG can enhance the shareholder's trust and confidence in organizational corporate leaders (Choi et al. 2020) such as BOD, ARC, NRC, and EM. Regulations and laws are designed to protect shareholders and societies from fraud and controls are developed to prevent these frauds from occurring or reoccurring. Recent corporate frauds and scandals such as NMC Health Care fraud, 1 MBD fraud, and collapse of Abraaj group (Parasie 2020; Burroughs and Khan 2019; Sharif 2019) have raised doubts on organizational corporate social responsibility and their accountability for their stakeholders. In the current business environment, SCG is the only way forward to avoid fraud and to provide satisfaction to shareholders (Grove and Clouse 2017).

Much importance is given by the European Union (EU) towards the establishment and implementation of SCG. It is stated by EU in their Inception Impact assessment report that "Sustainability should be further embedded into the corporate governance framework, as many companies still focus too much on short-term financial performance compared to their long-term development and sustainability aspects" (Commission 2020). Following are the principles of SCG, which can be deduced from the EU Inception Impact assessment report:

1. Align long-term interests of EM, shareholders, stakeholders, and society as a whole.
2. Integrate stakeholder interests, sustainability risks, dependencies, opportunities, and adverse impacts into strategies, decisions, and oversight.
3. Create legal certainty enabling organizations to identify, assess, and mitigate adverse impacts.
4. Develop corporate governance arrangements regarding directors' remuneration and corporate bonus schemes.
5. Empowering corporate directors to integrate wider interests into decisions and enhancing existing corporate governance mechanisms.
6. Implement non-financial reporting directives, which will assist organizations to disclose information about their risks and impacts.
7. Implement SCG strategy through proper risk management and impact mitigation procedures.

SCG is capable of improving the organizational resilience towards changing environmental situations, changing social circumstances, and to sudden exogenous shocks (like the COVID-19 pandemic) that might threaten an organization's continuous operation or even survival in the short term. However, the major constituents (BOD, ARC, NRC, and EM) play a major role towards the development and implementation of SCG. These four constituents are briefly explained below:

2.2.1. Board of Directors

BOD plays a fundamental role in monitoring and establishing corporate governance (Ganesan et al. 2017). It is one of the major responsibilities of the BOD to embed sustainability into the business and organizational culture; furthermore, BOD can also be categorized as a strong advocator for corporate sustainability and substantial convergence

(Salvioni et al. 2016). A Board of Directors can endorse an organization's annual organizational plan and assist in the development of that plan. BOD also contributes to preventing corruption. A transparent and rule-compliance-compliant BOD selection is very important. A majority of the BOD can be independent members who will work towards achieving SCG (Lombardi et al. 2019).

Over the past decade, many factors, both globally and within corporations, changed the governance mechanisms and strategic agendas of many companies (Chams and García-Blandón 2019). Traditionally, the BOD's duty has always been to the firm's investors and owners (Martín and Herrero 2019). In the current business environment, there has been a social paradigm shift that has led directors to assume broader responsibilities in meeting stakeholders' needs as well as stockholders' interests. It is being emphasized that the BOD's task should be broadened, enabling them to provide the services to organizations and society as a whole (Molano-León 2011; Chams and García-Blandón 2019). Such practices enable the SCG practices.

The BOD is responsible for raising awareness of sustainability implementation by adopting a systematic approach that balances the interests of shareholders and stakeholders. The characteristics of BODs are considered key to aligning financial performance with business effectiveness, responding more quickly to public pressures, and enhancing employee participation in sustainability commitments. BOD committees, including ARC and NRC, also contribute to sustainable performance. Committees are seen as an essential component of the board, as they deal with regulations, policies, and standards (Chams and García-Blandón 2019), and they also provide guidance to IA for the control and reporting purposes.

2.2.2. Audit and Risk Committee

Audit and risk committee (ARC) ensures alignment between plans and policy, and it must be proactive in tackling corruption prevention and fully involved in risk treatment within the bounds of the charter and the terms of reference. ARC is also responsible for appointing IA (Lombardi et al. 2019). ARC's success lies in oversight responsibility and their working relationships with other constituents of SCG, which includes BOD, NRC, EM, and also external auditors and IA (Abdel-Meguid et al. 2014; Rezaee et al. 2016).

Accountancy Europe and ecoDa recently organized a workshop towards the future role of ARC as part of SCG. This workshop brought together BOD, ARC, EM, and investors across Europe. During the workshop, it was recommended that the ARC role should include assuring and enhancing the control environment for producing non-financial results and goals. It was further recommended that the control environment should be as strong as for the financial data and financial goals. ARC should also look into the risk of non-achievement of SCG (Richez-Baum et al. 2021).

2.2.3. Nomination and Remuneration Committee

NRC plays a major role in dissolving the agency conflicts, and at the same time providing satisfaction to shareholders (Acharya and Volpin 2010; Dell'Atti et al. 2013). NRC assists in achievement of higher level of firm performance and reducing the levels of corporate failure (Appiah and Chizema 2015). The NRC promotes the adoption of ethical behavior codes and determines how much an EM should be compensated each year. NRC is also required to be involved in the disciplinary system (Lombardi et al. 2019).

NRC plays a major role in SCG by controlling BOD's and EM's remuneration and compensation (Rehman and Hashim 2020). NRC is also required to perform an active role in supporting whistleblower policy, encouraging job rotation, and supporting the adoption of behavior code (Lombardi et al. 2019).

2.2.4. Executive Management

EM is responsible for monitoring, implementation and development of corporate strategy focused towards achievement of sustainable organizational goals which can

eventually achieve SCG. EM includes group of experts responsible towards performance of the organization (such as CEO, CFO, and COO) and is mainly accountable for the achievement of corporate performance, goals, mission and vision of the organization (Carcello 2009). EM is also liable for maintaining the positive relationship with BOD and related committees and other stakeholders of the organization.

For a long time, the choices of corporate governance have been oriented to the satisfaction of shareholders' expectations. These satisfactions were only measured via business profitability and payment of dividends. Maximizing the profits often sometimes neglect the minority shareholder's rights and community in which the organization is operating. EM played a major role in providing the unjustified dividends and in return they were availing high bonuses and unjustified increments. This practice leads to fraud and resulted in closure of companies, which not only impacted the organization but society as a whole (Salvioni and Astori 2013).

EM is responsible for the implementation of organizational policies and is responsible for the achievement of organizational goals and objectives (Carey et al. 2019). An organization's executive management encourages whistleblower policies. They must also be involved in identifying conflicts of interest (Lombardi et al. 2019). SCG enforces the rules which compel the EM towards sustainable progress. This enforcement of SCG principal affirmed a new approach to the EM's role in the society. SCG enables participation for EM in a more efficient resource-oriented economy, which is environmentally oriented and competitive, which implies significant changes in the complexity of relationships with relevant company stakeholders (Commission 2020). EM is responsible for the integration of economic, social, and environmental changes, which can impact their decision-making capabilities. EM emphasizes their overlapping responsibilities, along with SCG principals, in order to optimize the results compared to the stakeholder expectations.

2.3. Corporate Governance in Oman

Omani codes of corporate governance were established in year 2002 with the second revision made in year 2016 (CMA 2020). A few more amendments have been made recently, which are directed towards providing more controls and transparency towards organizational performance, such as establishment of NRC, and that the majority of the ARC members should be independent with IA directly reporting to ARC (CMA 2020). However, the developed codes are not defining the sustainability clauses of corporate governance and are more directed towards the compliance of certain procedures (Baatwah et al. 2015). It is worth mentioning that Oman developed sustainability goals for 2030 which comprises all the required modules (Omanuna 2015); however, sustainability clauses are still not updated in the codes of corporate governance and no mechanism is developed to identify the sustainability within corporate governance of organizations.

As of 31 May 2021, there are 118 companies listed in Muscat Stock Exchange (MSM), including three preferential shares. MSM also categorizes the companies into three sectors, namely (1) financial (2) industrial (3) services. Organizations are obliged to provide their compliance with the codes of corporate governance, along with placement of material information on MSM website. A summary of the organizations listed in MSM is presented in Table 1.

Table 1. Organizations Listed in Muscat Stock Exchange.

Sector	Number of Organizations
Financial	41
Industrial	40
Services	37
Total	118

2.4. Chinese Investment in Oman

After the one belt one road initiative, China is strategically investing in many countries, including Oman. In the last decade, China imported 83% of Oman's crude oil (Yenigun and Maashani 2020) and has become the highest oil exporter for Oman. It is worth mentioning that 51% of Oman's revenue is oil-based (KPMG 2020), and it can be asserted that 42% of revenue is generated by the imports conducted by China.

In 2011, Oman introduced special economic zone authority at Duqm (SEZAD) and attracted many foreign investments. SEZAD is comprised of eight main areas, i.e., ship dry dock, port, regional airport, oil refinery, heavy-medium-light industries complex, logistics, residential, and commercial (SEZAD 2013). Within SEZAD, China has invested USD 10.7 billion. This investment is towards 35 projects spread all over SEZAD. Other than this investment, China invested more than USD 10 billion in Sohar port (Han and Chen 2018) and provided USD 3.6 billion of financing from Chinese financial institutions for various projects (Chaziza 2019).

The current code of corporate governance in Oman lacks protection of foreign investor or foreign investment in terms of BOD representation and voting rights. There are also restrictions where, in many areas, the foreign investor cannot be the owner of the business; however, if codes allow preferential voting rights for foreign investors, then it can create a sustainable environment that can eventually attract more Chinese investment. Furthermore, current codes can also cater for the appointment of executive/senior management nominated by the foreign investor.

2.5. Underlying Theories

The theories which are applicable for this study are agency theory and institutional theory. These theories are explained below:

2.5.1. Agency Theory

Agency theory defines the relationship between principal and agents. In agency theory, shareholders delegate several responsibilities to a group of experts for the success of their organizations whilst solving conflicts of interest and other associated problems (Afza and Nazir 2014). Entrusted agents such as EM, IA, BOD, and related committees are liable for the implementation of corporate governance (Bahrman et al. 2012), which can eventually lead towards the achievement of SCG.

It is evident from the agency theory that corporate governance is completely dependent upon the agents who are hired by the principals. Organizational and governance management is also liable for the delivery of results and safeguarding the interest of shareholders and this interest can only be protected by achieving SCG and utilization of IA. IA assist in resolving and mitigating agency conflicts and agency cost. IA can be an agent for the principal and can assist in identifying potential control weaknesses and probable frauds. IA is also the main component of the codes of corporate governance and brings transparency in the organizational operations and satisfaction to the shareholders.

2.5.2. Institutional Theory

The institutional theory establishes that organizations are confronted with demands from their institutional environment to adopt certain rules, norms, or practices. Organizations are influenced by their institutional environments through normative and intimidating mechanisms. In order to maintain persistence and commitments, institutions create pressure to develop controls and assurance activities such as IA.

The institutional theory illustrates the guidelines for corporate behavior (Scott 1987) and their attitude towards control environment and control assessment. This theory defines management's accountability directed towards institutional effects (Aguilera 2005) as it considers the processes by which rules and guidelines are established (Puffer and McCarthy 2015). The institutional theory is utilized to investigate the role of the governance management, which is directed towards creating SCG and satisfied shareholders

(Lombardi et al. 2019). Institutional theory compels the organization towards sustainability and obliges BOD and EM to create an environment which can achieve SCG.

3. Research Methodology

This study is intended towards identification of the relationship and impact of SCG on IA. This study utilizes quantitative cross-sectional survey design, with publicly listed companies as units of analysis. Questions for this study are adapted from previous studies and presented in Appendix A Table A1. Respondents for this study are those who can answer on behalf of the organization such as BOD, ARC, NRC, and EM, including CEO, CFO, COO, and head of internal audit function. Five-point Likert scale logic, along with multiple choice question of ‘yes’ and ‘no’, is being used for this study. The five-point Likert scale ranges from strongly disagree to strongly agree. Questions are distributed into different sections of SCG and IA. Each section explains the definition and purpose of the research.

In order to identify the required sample, G*Power3 is utilized, which provides the sample size as 74 organizations with an effect size of 0.15. Sample size of 74 organizations is necessary for achieving a power of 0.95 and for $\alpha = 0.05$; however, for the purpose of this study, questionnaires have been forwarded to all 118 companies listed in MSM.

Respondents are asked to answer twenty-two questions along with three demographics questions. An internet-based tool is utilized for the collection of data. Analysis for collected data is performed by utilizing Statistical Package for Social Science (SPSS) and Partial Least Square and Structural Equation Modeling (PLS-SEM).

It is necessary to conduct the assessment of measurement model to ensure that the study is fulfilling the requirements towards the further assessment of structural model. Following the guidance provided by Ramayah et al. (2016), assessment of the measurement model is conducted via PLS-SEM, and rule of thumb for the acceptable value of measurement model is provided in Table 2.

Table 2. Acceptable Values for Model Evaluation—Measurement Model Analysis.

Assessment	Name of Index	Acceptable Values
Internal Consistency	Composite reliability (CR)	$CR \geq 0.70$
Indicator reliability/Factor loadings	Indicator Loading	Outer loadings ≥ 0.5
Convergent validity	Average Variance Extracted (AVE)	$AVE \geq 0.50$
Discriminant validity	HTMT Criterion	$HTMT < 0.85$

Source: Ramayah et al. (2016) and Henseler et al. (2015).

The first criterion to be evaluated is internal consistency reliability. Internal consistency is measured via composite reliability (CR), which provides an estimate of the reliability based on the inter-correlations of the observed indicator variables. CR varies between 0 and 1, with higher values indicating higher levels of reliability (Hair et al. 2017). Convergent validity can be defined as the extent to which a measure correlates positively with alternative measures of the same variable.

To evaluate convergent validity, the outer loadings of the indicators and the average variance extracted (AVE) are considered. High indicator loadings on a variable indicate that the associated indicators have much in common, which is captured by the variable. The size of the indicator loading is also commonly called indicator reliability. The loadings of all indicators should be statistically significant. A common measure to establish convergent validity on the construct level is the average variance extracted (AVE).

An AVE value of 0.50 or higher indicates that, on average, the construct explains more than half of the variance of its indicators. Conversely, an AVE of less than 0.50 indicates that, on average, more variance remains in the error of the items than in the variance explained by the construct (Hair et al. 2017). For the discriminant validity, it defines the extent to

which a variable is actually distinct from other variables by empirical standards. Establishing discriminant validity ensures that a variable is unique and captures phenomena not represented by other variables in the model. In order to achieve the discriminant validity in the path model, a value of 0.85 or lower is necessary (Ramayah et al. 2016; Henseler et al. 2015; Hair et al. 2017).

After the measurement model assessment, the next step is to assess the structural model in PLS-SEM. Acceptable values of assessment model measurement are presented in Table 3:

Table 3. Acceptable Values for Model Evaluation—Structural Model Analysis.

Assessment	Name of Index	Acceptable Values	Source
Collinearity	Variance inflator factor (VIF)	VIF < 5	García-Carbonell et al. (2015)
Path Coefficient	Path Coefficient	t value > 2.33 p value < 0.05	Hair et al. (2017)
R-square	Coefficient of determination	0.26-Substantial 0.13-Moderate 0.02-Weak	Cohen (1988)
f-square	Effect size	Large 0.16 and above Medium 0.03–0.15 Small 0.02	

Collinearity can be defined as the existence of high correlations between independent variables that can be problematic for their weight estimation and statistical significance (Hair et al. 2017). Collinearity occurs in a model when VIF values for specific indicators are 5 and above (García-Carbonell et al. 2015). R^2 can be defined as the amount of variance in dependent variables, and it also measures the predictive accuracy related to the model. The R^2 is one of the vital criteria which is frequently utilized towards assessment and evaluation of the structural model, as it measures the extent and degree to which independent variables can be explained by the dependent construct (Hair et al. 2017). Value of R^2 varies between 0 and 1 and indicates that the larger value will depict greater predictive accuracy levels.

Effect size f^2 is an indicator that quantifies the impact of the independent variable has on a given dependent variable. The values of 0.02, 0.15, 0.35, and above signify small, medium, and large effect sizes, respectively (Cohen 1988). Furthermore, it can be asserted that effect size can confirm all boot strapping test results, which is necessary for the determination of path coefficient. Bootstrapping is performed for the determination of path coefficient, which is required to ascertain the level of significance related to the direct effects (Hair et al. 2017).

Rules described in Tables 2 and 3 are compulsory to identify whether the relationship is statistically significant and also confirming the framework of the study (Hair et al. 2017).

4. Results and Discussion

This study is intended towards identification of a relationship between SCG and IA. As mentioned earlier, quantitative research method is utilized for this study and a questionnaire was sent to all 118 companies. Respondents are those who are capable of responding on behalf of the organization. The sample size suggested by G*Power is 76; however, the responses were received from 80 companies, which represents 68% of the overall organizations and more than the sample size. Data is collected via an internet-based tool and analyzed by utilization of SPSS and PLS-SEM.

4.1. Demographic Profile of Respondents

The majority of the respondents are male, belong to the industrial sector, and work in executive/senior management capacity. It is worth mentioning that a good mix of responses was received, and demographics are presented in Table 4.

Table 4. Demographic Profile of Respondents.

Question	Response	Percentage
Gender	Male	96%
	Female	4%
Sector	Financial	29%
	Industrial	43%
	Services	28%
Position in organization	Board of Director	21%
	Audit and Risk Committee member	16%
	Nomination and Remuneration Committee member	4%
	Executive/Senior Management	31%
	Chief/Head of Internal Audit/Risk Officer	28%

4.2. Assessment of Measurement Model

Assessment of measurement model is conducted in accordance with the rules defined in Table 2 and are presented in Table 5 and Figure 1:

Table 5. Assessment of Measurement Model.

Indicators	Outer Loading	Composite Reliability	AVE
Sustainable Corporate Governance			
SCG 1	0.65	0.914	0.5
SCG 2	0.62		
SCG 3	0.611		
SCG 4	0.645		
SCG 5	0.757		
SCG 6	0.619		
SCG 7	0.664		
SCG 8	0.735		
SCG 9	0.769		
SCG 10	0.737		
SCG 11	0.682		
SCG 12	0.619		
SCG 13	0.59		
Internal Audit Function			
IA 1	0.764	0.918	0.652
IA 2	0.787		
IA 3	0.864		
IA 4	0.684		
IA 5	0.865		
IA 6	0.862		

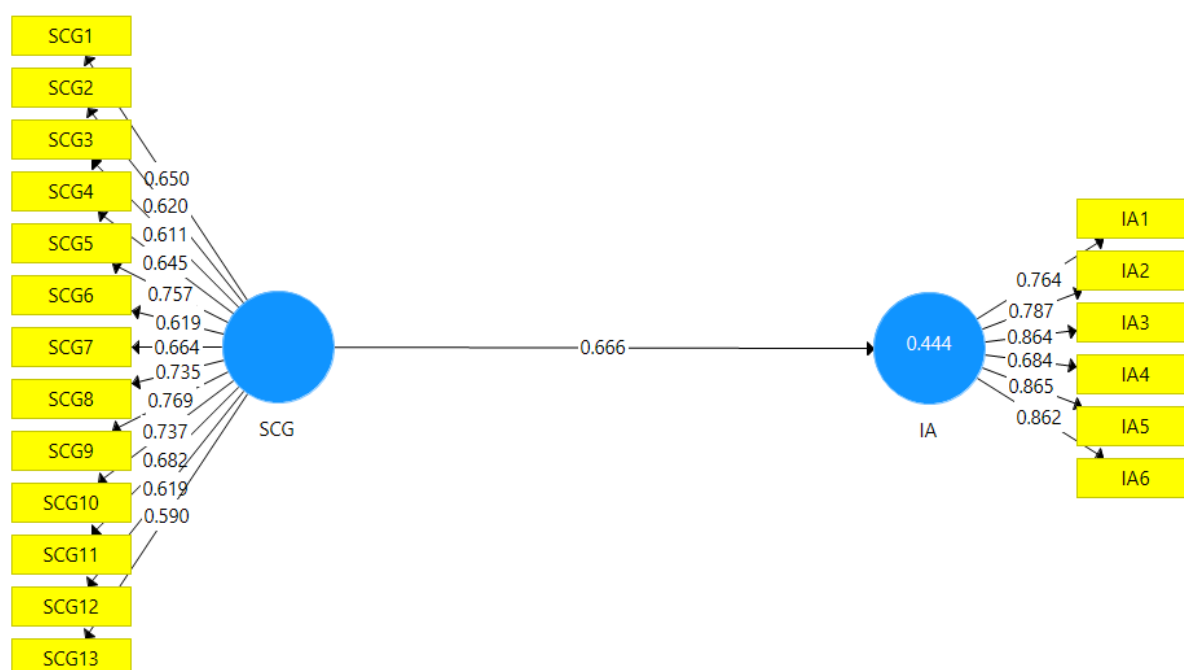


Figure 1. Value of Outer-loading and R^2 .

Results suggest that all the parameters are fulfilling the requirements of measurement model. Indicator reliability for all the indicators is above 0.5. CR and AVE for IA is 0.918 and 0.652, respectively, and CR and AVE for SCG is 0.914 and 0.5, respectively. There is no issue of discriminant validity, as HTMT demonstrates that values are below 0.85 which is within the threshold.

4.3. Assessment of Structural Model

After the assessment of measurement model, assessment of structural model can be performed in accordance with the rules defined in Table 3. Arrived results are presented in Table 6 and in Figure 1. There is no issue of collinearity, as the VIF values are below 5. Values of R^2 are on the substantial side, as they are above 0.26. Values of the f^2 , which is the effect size, is large, as values are above 0.35.

Table 6. Significance of Direct Effect–Path Coefficient.

Variable Path	Beta	Standard Deviation	T Statistics	<i>p</i> Values	R^2	f^2	Decision
SCG → IA	0.666	0.053	12.523	0.00	0.444	0.799	Supported

4.4. Significance of the Direct Effect

For the significance of the direct effect, bootstrapping was performed via PLS-SEM for 80 samples with the application of 5000 sub-samples. Path coefficient is measured to ascertain a level of significance related to the direct effects. The significance of direct effect–path coefficients are presented in Table 6 and Figure 2. Result suggests that the beta for the relationship is positive, hence demonstrating the direct relationship. Relationship for SCG → IA is significant, as *t* values are greater than 2.33 and *p* values are lower than 0.05.

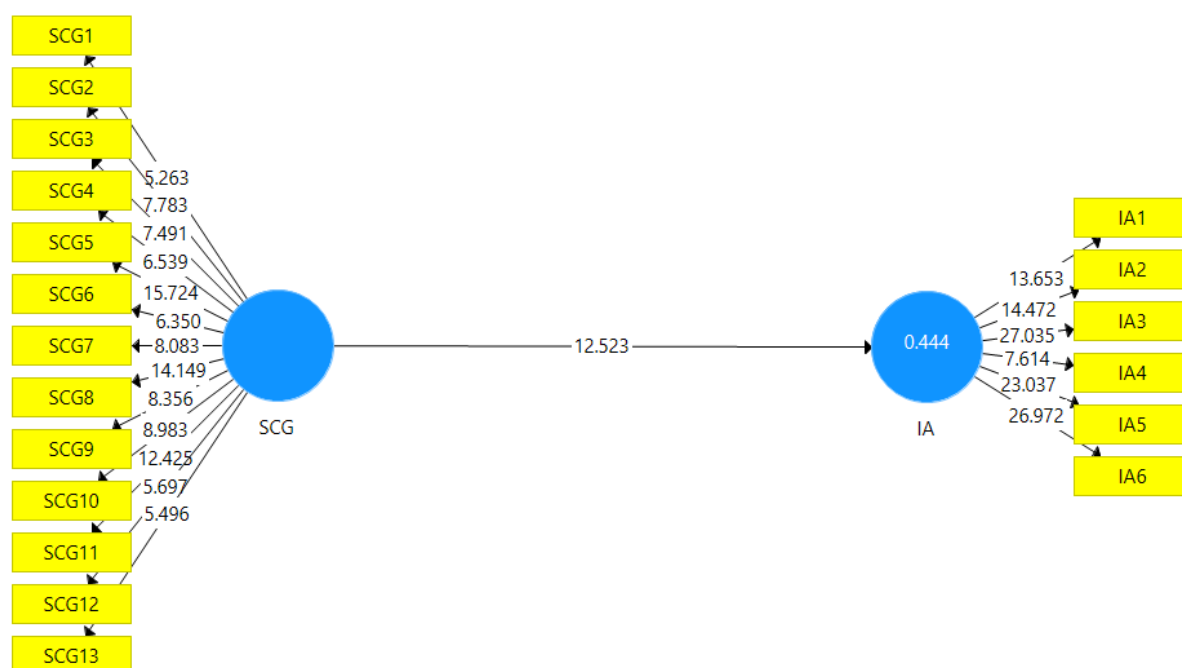


Figure 2. Direct Effect—Path Coefficient and *t*-values.

Internal auditing has always been changing fields due to the continuing cycle of incidents and reforms (Bao et al. 2020). SCG defines the rules and regulations, which are to be complied by IA in order to provide satisfaction to shareholders. Without SCG, internal audit function will not be able to provide the required results. In concurrence with the institutional theory, governance management is directed towards creating SCG and satisfied shareholders, and for this reason policies are created which provide the direction to IA to perform the required task. IA performs a task which is directly linked with the organizational strategies and is hence significantly impacted by SCG.

As mentioned earlier, previous relevant studies verify only one constituent for SCG, whereas this study identified four constituents necessary for SCG, namely BOD, ARC, NRC, and EM; however, this study can be considered as consistent with the studies conducted by Drogalas et al. (2016), Dellai and Omri (2016), Rehman and Hashim (2019), and Lombardi et al. (2019). These past studies examined the influence of individual components like BOD, ARC, NRC, and EM on control functions such as IA, and their findings showed that the influence of these constituents is positive and has a significant impact on the control function, which includes IA.

5. Conclusions

This study makes significant contribution towards sustainable governance systems and also provides practical applications to companies not only in Oman, but across all global organizations. SCG is becoming a necessity of public listed companies and can also be considered as an international fundamental requirement. This study is supported by two theories, namely agency theory and institutional theory. The cause and effect relationship between SCG and IA was supported by institutional theory.

Results suggests that there is direct and significant impact of SCG on IA, as the *t* values are more than 2.33 and *p* value is lower than 0.001. Due to the continuous cycle of incidents and reforms, internal auditing has always been a changing field. In order to satisfy shareholders, IA must adhere to the rules and regulations defined by SCG. If SCG is not present, the internal audit function will not be able to meet the requirements. Using the institutional theory, governance management focuses on creating SCG and satisfied shareholders. As a result, policies are defined that provide IA with the necessary

instructions in order to accomplish the desired outcome. SCG has a considerable impact on IA, since it performs tasks directly tied to organizational strategies.

It is expected that this study will contribute substantially to a better understanding of IA in the context of SCG. Findings and results of this study will be helpful and useful for organizations as they can amend their codes and incorporate SCG principles; furthermore, this study will also assist organizations in identifying and bridging their planning and operational gaps, as SCG defines the way forward, and organizations can assess their current situation i.e., identifying where they are and where they want to be. It is highly recommended that all the modules of sustainable development goals should be embedded in the organizational corporate governance for it to be sustainable, as it can assist in achieving the overall sustainability.

SCG created policies and controls which are monitored by IA, assisting in preventing fraud before it occurs by identifying potential threats, developing controls, and developing mitigating actions. Furthermore, SCG can also enhance the chances for the sustained investment from China, which is currently facing many uncertainties in the absence of SCG clauses within the codes of corporate governance of Oman.

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Appendix A

Table A1. Questions for this study.

Variable/Indicator Number	Question	Source
Sustainable Corporate Governance		
SCG 1	In my company audit and risk committee verifies alignment between plans and policy	Lombardi et al. (2019)
SCG 2	In my company audit and risk committee is effective towards corruption prevention	Lombardi et al. (2019)
SCG 3	Is audit and risk committee in your organization appoints Internal Audit	Lombardi et al. (2019)
SCG 4	In my company audit and risk committee involve in risk treatment	Lombardi et al. (2019)
SCG 5	In my company board of directors is involved in preparation of annual organizational plan	Lombardi et al. (2019)
SCG 6	In my company BoD approves annual organizational plan	Lombardi et al. (2019)
SCG 7	In my company BOD provides extra attention towards corruption prevention	Lombardi et al. (2019)
SCG 8	Appointment of BOD is transparent	Lombardi et al. (2019)
SCG 9	In my company executive management encourages whistleblower policy in organization	Lombardi et al. (2019)

Table A1. Cont.

Variable/Indicator Number	Question	Source
SCG 10	In my company executive management is involved in highlighting any conflict of interest	Lombardi et al. (2019)
SCG 11	In my company nomination and remuneration committee encourages ethical behaviour code adoption	Lombardi et al. (2019)
SCG 12	In my company nomination and remuneration committee is responsible for the recommendation of annual salary increment of executive management	Lombardi et al. (2019)
SCG 13	In my company nomination and remuneration committee is involved in disciplinary system	Lombardi et al. (2019)
Internal Audit		
IA 1	In my company internal audit is learning from inside and outside the organization for continuous improvement	MacRae and van MacRae and Gils (2010)
IA 2	In my company, internal audit integrates information from across the organization to improve governance and risk management	MacRae and van MacRae and Gils (2010)
IA 3	In my company, internal audit professional practices uniformly applied	MacRae and van MacRae and Gils (2010)
IA 4	In my company, internal audit sustainable practices uniformly applied	MacRae and van MacRae and Gils (2010)
IA 5	Number of audit committee meetings internal Audit was invited to attend during the last fiscal year.	MacRae and van MacRae and Gils (2010)
IA 6	In my company internal Audit, is free talk with the audit committee/chairman in addition to regularly scheduled meetings	MacRae and van MacRae and Gils (2010)

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