

## How internal auditing impacts governance mechanisms in small and medium-sized businesses



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### ABSTRACT

Small and medium-sized businesses (SMEs) use internal auditing (IA) as a key tool to start governance processes in their organizations. SMEs can gain several advantages from IA, such as identifying and managing risks, creating a strong control environment, ensuring compliance, improving operational efficiency, and aligning their strategies with their objectives. By using IA, SMEs can build a solid foundation for success and adapt to today's changing business environment. SMEs encounter specific challenges in initiating governance processes because they lack the resources and infrastructure that larger organizations have. Integrating IA into a company's management process can be difficult for smaller businesses, so they need to make full use of IA. Therefore, this study aims to examine how IA influences the activation of governance mechanisms in SMEs. The study uses the design science method (DSM). The results show that IA significantly affects the activation of governance mechanisms in SMEs. IA helps identify and manage risks, improve internal controls, ensure regulatory compliance, and address issues of concern. Effective IA functions can enhance corporate governance practices, promote ethical decision-making within the organization, and improve the overall effectiveness and success of the organization.

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### 1. Introduction

The internal auditing (IA) process is known to be important for managing and controlling companies. Internal audits are done by employees who report directly to the company's management (Dykstra and Sherman, 2013). From an external viewpoint, internal audits seem very similar. A key function of IA is to add value and improve organizational controls by promptly ensuring and consulting, detecting fraud risks, preventing them, and monitoring these risks throughout the organization. IA is essential for effective governance, as it activates governance mechanisms (Almasria, 2018). This is the first step in the process. Audits can help create a sustainable and successful organization by examining current governance mechanisms, identifying gaps, and providing improvement recommendations (Formentini and Taticchi, 2016). Auditing governance practices is a vital tool for

improving governance processes, promoting accountability, and maintaining high ethical and integrity standards in the organization.

The direction in which auditing and IA research and practice have developed over the past few decades is one of the most important topics in the field (Moll and Yigitbasioglu, 2019; Barac et al., 2021; Hay, 2021). Several studies have explored the changes happening in IA. These studies show that the role of IA has evolved due to new laws and regulations, digitalization, environmental concerns, and changing stakeholder requirements (Soh and Martinov-Bennie, 2011; Kapoor and Brozzetti, 2012; Roussy, 2013; Nickell and Roberts, 2014; Liu et al., 2020).

According to Kapoor and Brozzetti (2012), several factors are contributing to the rapid expansion of the global market for financial services, including a greater complexity of the globalized marketplace, high-profile fraud and scandals, new laws and regulations, and a growing demand from stakeholders for greater assurance. During the past 20 years, several risks, such as financial scandals, have caused companies to be further exposed to different risks as a result of rapid and continuous changes in the business environment. Furthermore, the control mechanisms have also evolved as a result of these changes. In addition to general agency

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theory (Soh and Martinov-Bennie, 2011; Roussy, 2013; Mihret, 2014; Nickell and Roberts, 2014), perspectives on the risk society and the audit society (Beck, 2002; Nickell and Roberts, 2014) are also important. For a company to achieve long-term success, it is crucial to establish effective internal controls and conduct IA.

In addition, information analysis has a significant role in improving the performance of an organization. There is, however, a growing concern about how to maintain the effectiveness and efficiency of this process. IA must ensure that it can meet the demands of multiple stakeholders and that it can take advantage of the increasing use of digital technology for the company and/or its stakeholders (Roussy, 2013; Nickell and Roberts, 2014). The literature is still ambiguous about the role that IA plays and the impact technology has on the internal auditors' work (Roussy, 2013).

IA has indeed evolved from being a tool for controlling to a tool for consultancy in recent years, and it now provides a variety of services to different stakeholders across an organization (Roussy, 2013). There is a very basic reason why IA is considered an assurance service. IA is basically responsible for ensuring compliance with current regulations and laws. IA offers consulting services to managers to achieve objectives, manage risks, and enhance corporate governance (Nickell and Roberts, 2014). Given the roles IA plays in Europe, IA units have increasingly focused on consulting, governance, and IT audits in the course of their activities (Anderson et al., 1994; Allegrini et al., 2008) rather than compliance and financial audits (Allegrini et al., 2008).

Generally, internal audit outsourcing involves engaging third parties to perform IA for a business, which means hiring and engaging independent professionals who are not necessarily employees of the business (Barac and Motubatse, 2009). Nevertheless, their skills can still be used in-house by a company as part of its in-house team. According to Yasseen (2011), outsourcing refers to providing or surrendering services to external parties. In addition, Tazilaha et al. (2019) portrayed internal review outsourcing as a separation from coordination business, which can likewise incorporate short legal agreements with master individuals, long haul authority following, and remote advancement of electronic learning. As asserted by Inua and Abianga (2015), accounting risks can be eliminated when consulting work is outsourced to outside organizations, and counterfeit reporting can be reduced. Although the majority of research indicates that outsourcing of review has a positive outcome and prevents misrepresentation, Tazilaha et al. (2019) indicated that an association with an internal review process could have a more advantageous position than one that is completely outsourced. Two patterns are behind the extensive development of outsourcing of internal audit functions. First, by providing a greater amount of coaching to help builders build their incomes and

benefits, one will help the firm's bookkeeping increase income. Second, the expanded awareness of controllers, administrators, and bookkeepers about the feasibility of inner control prompts an increase in the perceived importance of internal control.

The following indicates the impacts of IA on governance, oversight, and follow-up and shows the effectiveness of IA in these areas:

- The internal audit department is responsible for presenting a report to the organization's leadership and shareholders on a regular basis as deemed necessary by the management.
- Internal audits, whether they are performed inside or outside a local government, are considered legitimate objective activities that are conducted on behalf of local authorities by individuals who have extensive experience and can conduct internal audits efficiently and effectively on behalf of local authorities.
- IA can be expanded by providing advisory services, assurance, examination, and evaluation services as part of IA. The mandate of the department extends well beyond traditional tasks, indicating that its primary goal is to serve citizens, contrary to traditional practices. As a result, when the governance system assesses risks and engages in its work in support of the governance system, the system provides support to the latter.
- A strategy for IA should be developed by the political leadership of the country to add value regarding assurance. Therefore, the revised concept emphasizes the importance of internal audit functions in achieving an organization's managerial objectives when it comes to the internal audit functions.
- To effectively combat corruption and provide a more efficient and acceptable system of governance, the components of an internal control system must be considered as an essential part of the fight. Internal auditors have to perform a variety of tasks in a variety of areas, such as risk management, control systems, and governance systems. Consequently, it has become necessary for them to perform many different tasks to accomplish their duties efficiently and accurately.
- To provide independent technical opinions, internal auditors evaluate evidence objectively.

Accordingly, the purpose of this study is to observe the impact that internal audit has on the activation of governance mechanisms in Small and medium-sized businesses (SMEs). Based on the findings of this study, IA may serve as an invaluable tool to assess, mitigate, and improve internal controls and ensure compliance with regulatory requirements. It is achieved by offering detection and mitigation services that are crucial to assessing and mitigating risks. For an organization to succeed, it is imperative to implement effective internal audit functions. This is to enhance corporate governance practices, promote ethical decision-making, and contribute to its overall health and success in the

long run. This study uses the design science methodology to collect data from popular research databases to conduct the analysis.

The rest of this study is organized as follows: Section 2 reviews the related work, the problem statement, and the objectives of this study. Section 3 explains the methodology used in this paper. Section 4 presents the results and discussion. Finally, Sections 5 and 6 introduce the limitations, future directions, and conclusion.

## 2. Related works

IA is considered to be an independent, objective assurance and consulting activity that adds value to an organization's performance, planning, and operations, according to the Institute of Internal Auditors (Zhang and Gao, 2012). A systematic and disciplined approach to the auditing of an organization's control, governance, and risk management processes is one of the most effective methods for evaluating and improving the process. Internal audit functions must be credible and communicated in a credible manner so that the management can take appropriate action on their recommendations to enhance the organizational performance. As a result, internal auditors are becoming increasingly responsible for strengthening internal controls and risk management processes as a result of being given greater access to resources (Spira and Page, 2003; Holm and Laursen, 2007). Today, internal auditors are transitioning from a traditional approach of performing interactive and proactive value-added auditing, which forms partnerships delivering services to management as a result of their efforts (Leung et al., 2011). According to De Zwaan et al. (2011), since the beginning of 2005, corporate management has developed a new profound interest in IA and risk management, as well as a renewed interest in risk management.

The authors (Nagy and Cenker, 2002; Allegrini et al., 2006; Mihret et al., 2010) acknowledge the role of IA in enhancing corporate performance, financial reporting, and corporate governance. Incorrect corporate governance and financial reporting can be prevented by an internal audit function. Organizations can use IA to ensure the effectiveness of their governance processes, especially when they want to manage and control risks. Developing high-quality risk assessments can be made easier by the internal audit function (DeLoach, 2000; Walker et al., 2002). Organizations are increasingly expecting internal audits to contribute to their success and are relying on them in this sense (Gofe, 2020).

In recent years, several studies have investigated how IA can play a role in activating SMEs' governance mechanisms. They have indicated that IA can significantly improve the performance of the company's governance, risk management, and financial position.

A study conducted by Dada (2022) suggested that internal audit practices could negatively affect SMEs' effectiveness. A descriptive analysis (mean, standard

deviation, maximum, and minimum values) and an inferential analysis were used to analyze the data.

Ahmad and Alrabba (2017) investigated how external auditing could be used to activate governance in Jordan's banking sector so that banking risks can be controlled. Data for this study was collected using structured and non-structured questionnaires. Sample t-tests were used to test alternative hypotheses to ensure accurate results. In that study, activating banking risk governance was primarily accomplished through external auditing. According to the findings, banks must avoid financial risks by hiring external auditors. And having external auditors in the banking sector could negatively impact Jordan's economy.

Al-Najjar (2018) examined the effects of corporate governance factors on audit features, namely audit fees and the selection of Big 4 audit firms in UK SMEs as a result of corporate governance factors. An analysis of the impacts of corporate governance characteristics on audit features was undertaken by employing cross-sectional time series models and two-stage least squares analysis. Furthermore, the authors investigated how corporate governance factors influence the choice of Big 4 audit firms, as well as the effectiveness of their services.

Khan and Liu (2023) attempted to determine the way the internal audit functionality influences corporate performance, firm performance, and environmental performance over the lifetime of the company through corporate governance. As a result, quality and performance are maintained in the business by keeping in mind the interests of shareholders, employees, and financial institutions. Internal audit functionality and corporate governance were found to significantly influence sustainability, firm performance, and environmental performance.

Tazilaha et al. (2019) investigated the awareness of internal audit among the SMEs that outsource internal audit functions, the perceived benefits, and the costs incurred by such outsourcing. The management control teams of SMEs can enhance the effectiveness of corporate governance in their organizations by strengthening their accountability, oversight, and control regarding corporate governance by their company's policies and procedures.

As stated by Boamah (2020), IA is a crucial element of corporate governance. It has a direct impact on the performance and sustainability of state-owned enterprises and, consequently, on their performance.

Alali and Haddad (2023) explored the risk management practices of Islamic banks and conventional banks in the countries of the Gulf Cooperation Council (GCC). There are different phases involved in risk management practices, including understanding risk, identifying risk, assessing and analyzing risk, and monitoring risk. Their study evaluated the whole process of risk management.

Aminu and Sulaiman (2023) studied internal control systems to determine how they affect funds management in the Sokoto State Industrial Training Fund, as well as whether they are effective (internal accounting control, IA quality, and audit committee quality).

The literature showed that there is limited research into the role of IA in activating governance mechanisms for SMEs. A possible explanation is that since economic reportage for SMEs has received less attention, the careful identification of the IA that focuses on financial reporting has been overlooked.

Based on the analysis of the literature review above, SMEs often face challenges when it comes to activating governance mechanisms, which are essential for ensuring effective risk management, internal controls, and compliance with regulatory requirements. One of the main issues faced by SMEs is limited resources, both in terms of finance and personnel. Small businesses often have limited budgets and staff, making it difficult to dedicate the necessary resources to establish robust governance mechanisms.

This lack of resources can lead to insufficient oversight and control, increasing the risk of fraud, financial mismanagement, and non-compliance with regulations. Additionally, SMEs often lack the expertise and knowledge needed to implement effective governance mechanisms. Due to their smaller scale, they may not have the same level of sophistication and experience in governance practices as larger organizations. This lack of expertise can make it difficult to identify potential risks, design appropriate controls, and implement effective internal audit functions. Furthermore, the fast-paced and dynamic nature of SMEs can make it difficult to maintain consistent governance and internal audit processes. Small businesses often face rapidly changing circumstances, such as new markets, new technologies, and evolving regulatory requirements. These rapid changes can make it challenging for SMEs to adapt their governance mechanisms in a timely manner, further increasing the risk of financial misstatements, internal control failures, and non-compliance. To address these issues, it is important for SMEs to prioritize the activation of governance mechanisms through internal audit. Internal audits can serve as a vital partner in helping small businesses establish effective governance practices. By providing independent and objective assurance, internal audits can help SMEs identify and address risks, enhance internal controls, and ensure compliance with regulatory requirements.

The main objective of this study is to investigate how IA impacts the activation of governance mechanisms in SMEs. To achieve this objective, the author needs to answer these questions:

- What are the existing AI approaches that are used with SMEs?
- What are the advantages and disadvantages of the existing AI approaches that are used with SMEs?

- What are the outcomes of the existing AI approaches that are used with SMEs?

### 3. Methodology

This paper used the design science methodology to explore the impact of IA on activating governance mechanisms in SMEs (Peffer et al., 2007). Essentially, it is a process in which data and insights are gathered, analyzed, and interpreted as a means of presenting context and inspiration for the direction that will be taken by the design to inform and guide the design process. The adapted methodology, as illustrated in Fig. 1, comprises three steps.

- **Step 1:** Identifying popular research databases: in this step, five popular research databases were identified and selected: Web of Science, IEEE Xplore, Springer Link, Scopus, and Google Scholar.
- **Step 2:** Assigning search rules: This step involves identifying the rules that govern the search process. Keywords, language, quality of the papers, and relevancy of the papers were some of the criteria that were considered. The keywords used in this study were "Internal audit," "SMEs," and "Activating governance mechanisms." For the purposes of this study, English was set to be the language of search.
- **Step 3:** Collection of data from research databases: This step involves collecting the data from the identified research databases based on the rules identified in Step 2. Table 1 displays the collected data.

### 4. Results and discussions

The findings of this study revealed that the use of IA has a substantial impact on the activation of governance mechanisms in SMEs. It was found that IA plays an important role in identifying and mitigating risks, improving internal controls, and making sure that regulatory requirements have been met. Several studies have shown that implementing the IA functions as part of corporate governance practices significantly promotes ethical decision-making and contributes to the overall health and success of an organization. Thus, the finding of this study is shown in Table 2.

The findings of this study clearly demonstrate the impact of IA on activating governance mechanisms in SMEs. The role of IA goes beyond mere financial auditing and encompasses risk management, internal controls, regulatory compliance, and ethical decision-making. By identifying and mitigating risks, improving internal controls, and ensuring that regulatory requirements are followed, the internal auditor plays a crucial role in promoting the overall health and success of SMEs. SMEs should recognize the importance of the internal audit function and invest in its growth and development to ensure the long-term success and sustainability of their operations. Thus, we explore the specific strategies

and recommendations that emerge from the study's outcomes as follows:

1. Embracing digital transformation: One of the key implications of the study is that SMEs must prioritize digital transformation in order to stay competitive. With the rapid advancement of technology, businesses must adapt their processes and technologies to stay relevant amidst evolving customer expectations. By embracing digital tools and platforms, SMEs can increase efficiency, improve customer engagement, and gain a competitive advantage.
2. Investing in customer relationship management (CRM) systems: SMEs often struggle with managing customer relationships effectively. However, investing in a robust CRM system can significantly improve this aspect. CRM systems provide a centralized platform for storing and managing customer data, enabling SMEs to personalize their marketing efforts, track customer interactions, and provide better customer support. By implementing CRM systems, SMEs can build stronger relationships with their customers, leading to increased loyalty and profitability.
3. Fostering collaboration and networking: SMEs often face resource constraints, making it crucial for them to leverage collaboration and networking opportunities. The findings of the study indicate that SMEs that actively engage in strategic partnerships and alliances can benefit from knowledge sharing, joint marketing efforts, and access to new markets. By fostering collaboration and networking, SMEs can expand their reach, enhance innovation, and gain a competitive edge.
4. Enhancing risk management: SMEs are particularly vulnerable to risks due to their small size and limited financial resources. The findings of the study highlight the importance of effective risk management strategies for SMEs. SMEs should develop comprehensive risk management plans that identify and mitigate potential risks, such as financial instability, legal risks, and cybersecurity threats. By implementing robust risk management practices, SMEs can protect their assets, ensure business continuity, and maintain a competitive edge.

The literature indicates that there is a lack of research on the role of internal audit in activating governance mechanisms for Small and Medium-sized Enterprises (SMEs). One possible reason for this gap is the limited attention given to economic reporting for SMEs. Internal audits, with their focus on financial reporting, can play a vital role in enhancing SMEs' governance practices. By identifying the internal audit functions that specifically focus on financial reporting, researchers and practitioners can further explore the opportunities and benefits of internal audit in supporting effective governance mechanisms in SMEs.

## 5. Limitations and open directions

To make IA a sustainable practice and a more effective tool in improving governance and risk management in SMEs, some limitations still exist, which must be overcome. There are several limitations to the internal audit function of an SME, including limited capacity and resource availability. The budgets of many SMEs do not allow them to hire full-time internal audit staff; therefore, there can be a shortage of expertise and a reliance on part-time staff. Future research should focus on alternative models that can find solutions to these issues and improve the effectiveness of IA in SMEs. The examples include outsourcing the internal audit functions or implementing the technology that can help resolve these challenges. Future research should also explore how IA helps SMEs adapt to changing business landscapes and risks as they emerge. It should also explore how this role can be strengthened. SMEs face challenges in business environments, including cybersecurity, sustainability, and digital transformations, that require them to adapt their practices in order to manage new risks as they grow in size and complexity.

As a result of internal audit's ability to stay abreast of emerging risks and offer timely advice and guidance to SMEs, it can improve their resilience and ensure that they remain competitive in an ever-changing environment. Thus, AI plays a pivotal role in enhancing SME resilience and competitiveness in an ever-changing business environment. By staying abreast of emerging risks, offering timely advice and guidance, promoting compliance and ethics, supporting decision-making, and strengthening financial controls, internal audit ensures that SMEs are prepared to navigate complexities and maintain their long-term success. Ultimately, the proactive involvement of internal audit helps SMEs survive and thrive in today's dynamic marketplace.

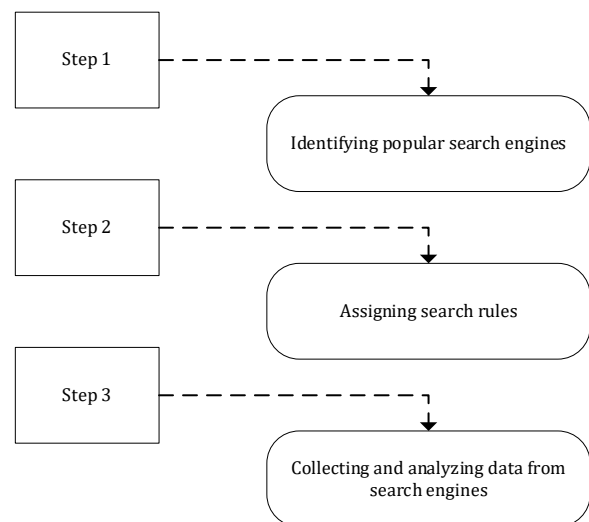


Fig. 1: Adapted methodology (Peffer et al., 2007)

**Table 1:** Summary of searching in the common database

Reference	Focus	Aim	Advantages	Disadvantages	Applied methods	Findings
Dada (2022)	SMEs in Kwara State	Examines the impact of internal audit practices on organizational performance in SMEs in Kwara State	Identifies and mitigates risks. Enhances control of the environment. Improves financial reporting	Delays implementation of effective internal audit practices due to financial, human, and technological constraints. Audit fatigue	Mixed methods (qualitative and quantitative)	SMEs in Kwara State with robust internal audit practices perform better than those without
Ahmad and Alrabba (2017)	Banking risks in Jordan	Investigates how external auditing can be used to control bank risks	Enhances credibility of the bank's reporting and transparency. Improves internal control	External audits can be costly and time-consuming. Identifying and assessing risks can be challenging	Structured and unstructured questionnaires	External audits effectively mitigate banking risks when independent, well-trained, and rigorously regulated
Al-Najjar (2018)	Big 4 firms in UK SMEs	Examines how corporate governance factors influence audit fees and selection of Big 4 firms	Provides understanding of how governance factors interact with audit features like fees and firm selection	Focuses only on UK SMEs; may not apply to SMEs in other regions or industries. Factors affecting audit fees and selection should be considered	Two-stage least squares models and cross-sectional time series	Board independence, board meetings, and board size influence audit fees. Governance factors also impact the selection of Big 4 audit firms
Khan and Liu (2023)	IA on corporate governance	Evaluates how corporate governance impacts sustainable performance, firm performance, and environmental performance	Identifies and mitigates risks. Ensures compliance with rules and regulations	Limited resources or tight budgets can pose challenges to this investment	Mathematical modeling of structural equations	Internal audit functions and corporate governance significantly affect sustainability and environmental performance
Tazilaha et al. (2019)	SME outsourcing of internal audit in Malaysia	Provides an overview of the effects of internal audit outsourcing among small businesses	Increases accountability, oversight, and control in corporate governance	Focuses only on SME outsourcing of internal audit in Malaysia	Literature review	Outsourcing internal audit can improve employee performance and productivity
Boamah (2020)	Performance of State-Owned Enterprises (SOE) in Namibia	Discovers the importance of internal audit practices to the governance and performance of SOEs	Simplifies maintaining financial integrity and accurate reporting. Enhances overall risk management capability	Resource constraints can hinder SOE productivity and performance. Non-compliance and inefficiency may need to be addressed	Structured and unstructured questionnaires	State-owned enterprises are more sustainable and perform better when internal audits are conducted
Alali and Haddad (2023)	Risk Management Practices in GCC Banking Companies	Examines risk management practices of Islamic and conventional banks in the GCC	Provides insights into strengths and weaknesses of each system. Improves risk management practices	Time-consuming and resource-intensive. Limited data may affect reliability and accuracy of analysis	Structured questionnaires	Effective risk management helps banks maintain stability, increase earnings, reduce losses, and improve reputation
Aminu and Sulaiman (2023)	Sokoto State Industrial Training Fund	Examines the effectiveness of internal control systems and their impact on fund management	Ensures accurate financial records. Proactively identifies and avoids fraudulent activities	Budget allocation needed for training, software, and external auditors. Accounting errors or intentional deviations may still occur	Organized questionnaire	Internal accounting controls, internal audit quality, and audit committee quality significantly affect fund management and quality in Sokoto State Industrial Training Fund
Zhang and Gao (2012)	Internal Audit in SMEs in China	Examines weaknesses and obstacles in developing internal audit capability	Focuses on SMEs in China	Motivation and shortage of qualified trainers are obstacles in practical training	Theory methodology	SMEs struggle to recognize internal auditor independence and face difficulties in

Ganesan et al. (2017)	Bursa Malaysia's Main Market manufacturing industry	Examines the role of internal audit in moderating the effects of corporate governance characteristics and sustainability disclosure	Enhances understanding of internal audit functions on sustainability disclosure and corporate governance	Limited to one year of data collection; results may benefit from a longitudinal study	Agency Hypothesis	recruiting and retaining qualified auditors  CEO duality and sustainability disclosure have a negative relationship moderated by internal audit function
Iqbal (2015)	Indonesian SME sector	Describes how Indonesian SMEs can implement good corporate governance	Recognizes new opportunities, adapts to changing market conditions, and differentiates	Limited capital and skilled personnel make it difficult to establish robust governance frameworks	Survey	Larger companies require more corporate governance mechanisms. Medium-sized enterprises demonstrate formal management practices such as governance principles and mechanisms
Tien and Thanh (2023)	Vietnamese SMEs	Studies how Vietnamese SMEs use internal audits	Improves operational and compliance internal audit performance by increasing auditors	Focuses only on Vietnamese SMEs	Questionnaire	Performance standards positively impact risk assessment, control activities, and monitoring. Information and communication processes are unaffected by internal audit
Lihuan (2022)	Chinese SMEs	Studies how unlisted Chinese SMEs perform internal audits	Outsourcing internal audit can improve effectiveness and efficiency	Small sample size may affect survey reliability	Quantitative research based on questionnaires	Outsourcing internal audit can enhance effectiveness and efficiency. Internal audit quality is related to both its effectiveness and size

**Table 2: The finding of this study**

Finding	Description
Classifying and reducing risks	IA helps SMEs identify and address potential problems early through risk assessments and audits. This proactive approach reduces financial failures, protects reputational assets, and ensures compliance with laws and regulations. SMEs face three types of audit risk: inherent risks, control risks, and detection risks. Inherent risks involve possible significant misstatements in transactions or accounts. Control risks relate to the effectiveness of internal controls, which auditors assess and test. Detection risks involve the chance that audit procedures might not detect misstatements, minimized through detailed testing but never entirely eliminated
Enhancing internal controls	IA helps SMEs improve internal controls by evaluating current systems and recommending enhancements. This process increases operational efficiency and the accuracy of financial reporting. Effective internal controls reduce risks of fraud, embezzlement, and other financial misconduct, ensuring transparency and accountability
Confirming compliance with regulatory requirements	SMEs often struggle with regulatory compliance due to limited resources. IA conducts periodic audits to ensure compliance, helping SMEs adapt to regulatory changes, identify compliance gaps, and take necessary actions. This compliance helps SMEs avoid legal issues and enhances their credibility and reputation
Improving corporate governance procedures	IA supports corporate governance by focusing on risk management, internal controls, and compliance to promote good governance and ethical decision-making. IA provides independent oversight and advice to senior management and board members, fostering informed decision-making aligned with the organization's values. This promotes accountability, transparent communication, and a positive company reputation
Organizing moral decision-making	IA promotes ethical decision-making by offering an independent perspective on ethical issues. It conducts ethical reviews and investigations to ensure decisions align with the organization's values and standards. This fosters a culture of integrity, improves the company's reputation, and reduces the risk of reputational damage

## 6. Conclusions

SMEs need a robust governance process that includes IA. Independent assurance helps organizations assess and mitigate uncertainty, identify and manage risks, improve internal controls, and promote ethical decision-making. The objective of this study was to examine the effects of IA on the activation of governance mechanisms in SMEs. A design science methodology was used in this study to collect and analyze data from popular search engines. For the purposes of this research, a number of popular research databases were selected: IEEE Xplore, Web of Science, Scopus, Springer Link, and Google Scholar. The findings of this study showed that the use of IA significantly boosted governance mechanisms in SMEs by activating these mechanisms. IA is important to identifying, mitigating, and improving internal controls in addition to making sure of compliance with regulatory requirements. According to the Institution of Internal Auditors, effective internal audit functions have the potential to improve corporate governance, bolster ethical decision-making in an organization, and contribute to the overall effectiveness and success of the organization.

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## Compliance with ethical standards

## Conflict of interest

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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