

Research on Voluntary Internal Audit of Irish Business

Feiyang Zhao^{1*}, Zhiquan Zhao²

¹UCD Michael Smurfit Graduate Business School, University College Dublin, Dublin, Ireland

²School of Economics and Management, Zhongyuan University of Technology, Zhengzhou, China

Email: *feiyangzhao95@gmail.com, zhaozq2004@126.com

How to cite this paper: Zhao, F. Y., & Zhao, Z. Q. (2023). Research on Voluntary Internal Audit of Irish Business. *Theoretical Economics Letters*, 13, 1266-1280. <https://doi.org/10.4236tel.2023.135070>

Received: August 4, 2023

Accepted: October 14, 2023

Published: October 17, 2023

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Abstract

Internal audit provides independent assurance regarding corporate risk management, internal control, and compliance and is a crucial component of the corporate governance framework. In contrast to auditing requirements in other nations, voluntary internal auditing has become integral to management decision-making in Irish businesses. The paper examines the internal and external factors and motivations that have contributed to the adoption of voluntary audits by Irish companies, analyses the impact of voluntary internal audits on Irish companies and the current challenges they face, and suggests that domestic companies, whether listed or not, should take the initiative to introduce voluntary internal audit systems.

Keywords

Regulatory Environment, Internal Audit, Corporate Governance, Motivation, Impact, Irish Business

1. Introduction

In the complex and highly regulated business environment, internal auditing provides publicly listed companies with an independent and objective means of assessing their internal control systems, risk management processes, and legal compliance. As emphasized by [Alexandra and Hlaciuc \(2017\)](#), internal auditors contribute to strengthening the overall corporate governance framework by recommending improvements in risk management practices, internal controls, and reporting mechanisms. However, publicly listed companies emphasize strict transparency, accountability, and regulatory consistency, which present unique challenges to their internal audit function ([Bita et al., 2022](#)). Unlike mandatory internal auditing regulations primarily applicable to publicly listed companies

and state-owned enterprises, Ireland's businesses engage in voluntary internal auditing.

Ireland has earned the reputation of being the "Silicon Valley of Europe," boasting Europe's second-highest economic freedom index and fifth globally. Favourable tax policies, an attractive investment climate, a highly skilled workforce, and the English language environment have attracted major multinational corporations, including Apple, Facebook, and others, to register in Ireland. These global giants have significantly contributed to Ireland's fiscal revenue and employment capabilities. In 2022, multinational corporations' corporate income tax accounted for 90.6% of Ireland's total corporate income tax revenue (Revenue, 2023). Whether publicly listed or not, many domestic and international enterprises registered in Ireland voluntarily undertake internal audits. This paper aims to shed light on the factors, motivations, and impacts of voluntary internal auditing in Irish businesses, with the hope of providing insights for domestic companies seeking to establish internal audit systems and enhance corporate governance and risk control.

2. Ireland's Regulatory Environment and the Scope of Voluntary Auditing

2.1. Ireland's Regulatory Environment

The arrangement and structure of Ireland's voluntary auditing system are closely intertwined with its business and regulatory environment. Ireland's regulatory framework aims to ensure proper corporate governance, accountability, and transparency. The Companies Act of 2014 (Irish Statute Book, 2014) introduced a modern legal framework for Irish companies to conduct business. Prior to the enactment of this law, Irish businesses, whether publicly listed or not, practised voluntary internal auditing. Post-2014, publicly listed companies are mandated to undergo internal audits, while non-publicly listed enterprises continue to conduct internal audits voluntarily. The Irish Auditing and Accounting Supervisory Authority (IAASA) oversees and regulates statutory auditors to ensure businesses comply with auditing standards and best practices.

The Central Bank of Ireland is pivotal in regulating and supervising Ireland's financial institutions. It establishes and enforces regulatory standards to safeguard the stability and integrity of the financial system. Furthermore, the Irish Stock Exchange (now known as Euronext Dublin) permits companies to issue stocks on public markets and raise capital. To ensure transparency and protect investors' interests, publicly listed companies must adhere to additional reporting and compliance requirements.

Although the abovementioned requirements do not impose mandatory audit obligations on non-publicly listed companies, in recent years, Irish regulatory authorities, industry associations, and professional organizations have increasingly emphasized corporate governance and risk management. In this dynamic business and regulatory environment, Irish businesses' voluntary implementa-

tion of internal auditing has become more crucial. Internal auditing provides independent assurance for risk management, internal controls, and compliance for Irish enterprises, making it a critical component of their corporate governance framework.

2.2. Scope of Voluntary Auditing in Ireland

According to the Institute of Internal Auditors (IIA, 2018), internal auditing is an independent and objective assurance and consulting activity aimed at contributing value to organizations and enhancing their operations. It assists organizations in achieving their objectives by assessing and improving the effectiveness of risk management, controls, and governance processes (Eulerich & Eulerich, 2020). Internal auditing is crucial for safeguarding organizational assets, evaluating risk management practices' effectiveness, and ensuring financial information's accuracy (Sylwia & Izabela, 2016). In Ireland, however, internal auditing extends beyond the financial domain. Internal auditors also assess operational processes such as procurement, production, and customer service to identify opportunities for enhancement, increased efficiency, and optimized resource allocation.

Typically, voluntary internal auditing in Irish businesses encompasses various areas or functions. These areas are responsible for ensuring the effectiveness of an organization's operations, financial reporting, and internal controls in compliance with relevant regulations and standards. Among these, the most critical domains covered by voluntary internal auditing include:

1) Financial Reporting: The audit process for financial reporting involves evaluating financial transactions, verifying accounts, confirming the application of accounting principles, and ensuring compliance with accounting standards such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). The outcomes of voluntary internal auditing significantly impact the quality and reliability of financial statements (Suryana, 2018; Kaawaase et al., 2021). By scrutinizing the financial reporting process, internal auditing enhances the overall quality of an organization's financial reports (Kaawaase et al., 2021).

2) Internal Controls: Assessment and testing of internal controls constitute another vital component of voluntary internal auditing. *Internal controls* are an organization's processes, policies, and procedures to protect assets, prevent misconduct, and ensure compliance. One of the functions of internal auditing is to assess the effectiveness of these controls and identify any weaknesses or deficiencies that need addressing (Huang, 2019).

3) Risk Management: Voluntary internal auditing places significant emphasis on the assessment and management of internal risks within its comprehensive risk management framework (Vasile & Croitoru, 2012). Internal auditors identify potential risks, assess their impact on business objectives, and provide strategic recommendations for risk mitigation. Simultaneously, internal auditors

closely collaborate with management to design a comprehensive framework for risk management, conduct risk assessments, and oversee the implementation of risk mitigation measures.

4) Operational Efficiency: Enhancing operational efficiency is a crucial focus of voluntary internal auditing (Chang et al., 2019). Internal auditors thoroughly examine various internal operational processes within the organization, identify areas of inefficiency or waste, and provide valuable recommendations for process improvement. These recommendations include streamlining workflows, optimizing resource allocation, and leveraging technology to enhance productivity and efficiency.

3. Factors Influencing Voluntary Internal Auditing in Irish Companies

Irish companies' voluntary adoption of internal auditing is a rational choice made through a comprehensive assessment and weighing of internal and external factors.

3.1. External Factors

External factors that impact Irish companies' organizations influence their decision to adopt internal auditing voluntarily. These external factors include legal and regulatory requirements, stakeholder pressure, industry standards, and best practices.

1) Impact of Irish Laws and Regulations: Legal and regulatory requirements play a crucial role in influencing the adoption of voluntary internal auditing (Tucker & Kasper, 1998). Irish laws and regulations related to corporate governance, financial reporting, and risk management often encourage or mandate internal auditing. The regulatory framework implemented by government authorities also shapes the decisions of publicly listed companies regarding voluntary internal auditing (Arslan & Alqatan, 2020). It is worth noting that although Ireland did not have mandatory legal requirements for internal auditing for publicly listed companies before 2014, there was a strong emphasis on effective risk management, internal control systems, and regular monitoring of these controls. Irish companies often adopt voluntary internal auditing to enhance corporate governance, strengthen internal controls, and improve risk management processes (Russell & Sarah, 1997; Meegan & Simpson, 1997). These organizations recognize that a comprehensive internal audit function can help them comply with regulations, prevent financial misreporting, enhance corporate governance, and demonstrate their commitment to achieving these goals and complying with applicable laws and regulations. Through the voluntary adoption of internal auditing, companies can proactively address potential risks, enhance transparency, and promote accountability to stakeholders (Wong et al., 2021).

2) Pressure from Stakeholders: Irish companies operating in public markets face pressure from investors and stakeholders demanding increased transparency and accountability. Shareholders, regulatory authorities, and customers exert

significant external drivers for the voluntary adoption of internal auditing (Wang, 2020). Shareholders typically have high expectations for an organization's transparency, accountability, and asset protection levels. The presence of a robust internal audit department instils confidence in shareholders that risks are being effectively identified, assessed, and managed. Research has found that adopting voluntary internal auditing positively impacts the quality of Irish companies' financial reporting and corporate performance (Tomasz, 2020). Regulatory agencies like the Central Bank of Ireland may also pressure organizations to voluntarily adopt internal auditing (Central Bank of Ireland, IAD). Regulatory bodies recognize that robust internal controls and risk management contribute to maintaining the financial system's stability. By encouraging voluntary internal auditing, regulatory agencies aim to enhance the market's overall integrity and protect investors' interests. Customers may also pressure organizations to have adequate internal auditing in place. Customers want assurance that organizations operate ethically, comply with relevant laws and regulations, and safeguard their interests. Voluntary adoption of internal auditing can help organizations demonstrate their commitment to these values, fostering customer trust and loyalty (Dee & Foster, 2021).

3) Challenges from Industry Standards and Best Practices: Organizations operating in specific industries may face unique risks and challenges. Industry guidelines and best practices offer valuable insights into effective risk management, internal control systems, and corporate governance (Eltweri et al., 2022). Through voluntary internal auditing, Irish companies can position themselves as leaders in their respective industries in alignment with industry standards and best practices. Irish companies recognize that one of the critical value functions of internal auditing is identifying potential weaknesses, enhancing operational efficiency, and effectively managing risks (Internal Audit Standards for Government Departments and Offices, 2018). Consistent voluntary internal auditing in line with industry standards positively impacts Irish companies. Firstly, it enhances the company's reputation among stakeholders, conveying confidence in its ability to protect its interests and assets through sound internal controls and risk management processes (Bank of Ireland, 2021). Secondly, the voluntary adoption of internal auditing sets Irish companies apart from competitors (Vasile & Croitoru, 2012). This differentiation showcases a proactive approach to risk management and a commitment to achieving operational excellence, making them attractive to investors who prioritize companies with substantial internal control and risk mitigation strategies. Furthermore, it facilitates organizational learning from industry peers and participation in knowledge-sharing networks and ensures timely responsiveness to industry changes and societal expectations (Abubakar et al., 2019).

3.2. Internal Factors

1) Perception of Management Regarding Risk and Control Needs: The

perception of an organization's management regarding the importance of risk management and control needs plays a crucial role in deciding whether to adopt voluntary internal auditing (Stojanović & Andrić, 2016). An understanding and recognition by the management of the significance of effective risk management and internal control can motivate them to implement internal audit functions voluntarily. For example, the management of Facebook acknowledges the rapid pace of technological advancement and related risks, including cyber threats and data breaches. They understand that the internal audit function can help identify vulnerabilities. By voluntarily adopting internal auditing, Facebook commits to ensuring its digital assets' confidentiality, integrity, and availability (Nieles et al., 2017). Similarly, the management of an Irish pharmaceutical company recognizes the potential impact of non-compliance on its reputation and business operations. They assess and monitor compliance with applicable regulations, Good Manufacturing Practices (GMP), and industry standards through voluntary internal auditing (Marker, 2018).

2) Organizational Culture and Governance Structure: Organizational culture and governance structure play a critical role in the decision of companies to adopt voluntary internal auditing (Arslan & Alqatan, 2020). A corporate culture emphasising accountability, transparency, and continuous improvement makes internal auditing a tool for enhancing organizational performance (Ojra et al., 2020). Irish companies have practised this, with a prominent example being Onsemi, which encourages employees at all levels to take responsibility for their actions and decisions, viewing internal auditing as an opportunity for learning and growth rather than a punitive measure (Onsemi, 2023).

Furthermore, organizational culture and governance structure can influence the degree to which internal audit recommendations are implemented and acted upon (Vander, 2020). For example, the Irish company Tusla has a well-defined board of directors and an audit committee overseeing risk management and internal controls. This governance structure ensures that internal audit findings are reviewed and addressed at the highest level within the organization. Similarly, AIB Bank in Ireland has a governance structure that strongly emphasises risk management and compliance, viewing internal auditing as a means to identify control weaknesses and strengthen risk mitigation strategies.

3) Financial Resources and Budget Constraints: Financial resources and budget constraints are critical considerations when organizations adopt voluntary internal auditing. The availability of funds and the organization's capacity to allocate a portion of the budget to internal auditing directly affect the feasibility and extent of internal auditing (Abdelrahim & Al-Malkawi, 2022). Some Irish companies have demonstrated the impact of financial resources and budget constraints on adopting voluntary internal auditing. Shein, for instance, faced challenges in establishing an internal audit function initially due to limited financial resources. However, recognizing the importance of effective risk management and control, the company gradually allocated a portion of its budget to invest in

internal audit capabilities. They appointed a part-time internal auditor and provided the necessary training and resources. Over time, as the company's financial situation improved, it expanded the internal audit team and broadened its scope to cover key risk areas. Shein's commitment to allocating resources to internal auditing demonstrates their recognition of its value in reducing risks and enhancing operational efficiency. Larger organizations with more substantial financial positions, such as AIB Bank, can allocate more significant resources to internal auditing.

4. Motivations for Voluntary Internal Auditing in Irish Companies

Irish companies are driven by various motivations to adopt voluntary internal auditing, aligning with strengthening corporate governance and risk management practices. By proactively implementing voluntary internal auditing, these organizations aim to enhance their overall control environment, improve risk mitigation, and foster a culture of accountability.

4.1. Enhancing Corporate Governance and Risk Management

Strengthening internal corporate governance practices within the organization is one of the primary reasons for implementing voluntary internal auditing (Omolaye & Jacob, 2017). In Irish businesses, the implementation of internal auditing often stems from a desire to improve corporate governance and risk management. Effective corporate governance safeguards stakeholders' interests by ensuring the organization operates transparently and responsibly. By voluntarily implementing internal auditing, organizations establish an internal oversight mechanism that helps identify gaps, weaknesses, and potential areas for improvement in governance structures. Furthermore, Irish companies can enhance their control environment, identify control weaknesses, and implement risk mitigation mechanisms (IAASA, 2022). This proactive approach demonstrates a commitment to sound corporate governance practices and instills confidence in stakeholders.

4.2. Improving Operational Efficiency and Effectiveness

One of the reasons Irish companies adopt voluntary internal auditing is to improve the efficiency and effectiveness of their operations, assisting in identifying and mitigating operational risks. Internal auditing is essential for ensuring that Irish companies adhere to policies, procedures, and industry standards, as mentioned in the *Central Bank of Ireland Internal Audit Charter (2022)*. A study conducted by the Irish Auditing & Accounting Supervisory Authority in 2020 found that internal audit initiatives led to an average cost reduction of 15% in the companies surveyed. This reduction was attributed to the identification of inefficient processes and the subsequent streamlining of operations (IAASA Annual Report, 2020). Internal auditors are trained to scrutinize every aspect of

a company's operations. They can identify areas where processes are inefficient, redundant, or not in line with best practices. By pinpointing these inefficiencies, companies can take corrective actions to streamline their operations and reduce wastage of resources.

Moreover, it provides valuable insights and recommendations to organizations to enhance operational efficiency, reduce costs, and optimize resources (Baffour, 2009). Operational risks are a constant concern for businesses. Internal auditors are skilled at assessing and prioritizing these risks. Through comprehensive risk assessments, they help companies recognize potential threats to their operations, such as fraud, compliance violations, or supply chain disruptions. Once identified, companies can implement strategies to mitigate these risks effectively.

4.3. Enhancing Compliance with Financial Reporting

Irish companies voluntarily implement internal auditing to improve financial reporting and compliance processes. By establishing internal auditing, organizations create a practical internal control framework that reduces the likelihood of financial misstatements and fraud. Internal auditors conduct independent testing and assessment, accurately record financial transactions, and maintain duty segregation, which can enhance financial information's accuracy, completeness, and timeliness.

4.4. Increasing Stakeholder Confidence and Trust

Increasing stakeholder confidence and trust is another primary reason Irish companies adopt voluntary internal auditing. Choosing to adopt internal auditing voluntarily indicates the organization's commitment to ethical behaviour, responsible governance, and proactive risk management. The organization's proactive approach to identifying and addressing potential risks and controlling vulnerabilities fosters confidence among stakeholders. Shareholders may be more inclined to invest in the company, and customers and employees may feel more secure and motivated (Bubilek, 2017). Furthermore, enhancing stakeholder confidence and trust is beneficial for the organization in building better relationships with regulatory authorities and other external stakeholders (Greenwood & Van Buren, 2010). Regulatory bodies may view organizations with voluntary internal audit functions more positively, perceiving them as proactive and committed to good governance practices. This may lead to smoother regulatory interactions and reduce compliance-related issues.

4.5. Gaining Competitive Advantage and Accessing Capital Markets

Voluntarily adopting internal auditing can provide a competitive advantage to organizations and improve their access to capital markets (Ismael & Roberts, 2018). Stakeholders, including investors, lenders, and capital market partici-

pants, value the strength of an organization's internal controls, risk management practices, and governance structure. Voluntarily implementing internal auditing allows Irish companies to proactively identify and address potential weaknesses or gaps in their control environment, minimizing the likelihood of operational disruptions, financial misstatements, and fraud. This helps improve operational efficiency and overall performance, reducing financial and reputational risks.

Accessing capital markets is another significant motivation for voluntary internal auditing. Organizations with a robust internal audit function can provide reliable and transparent financial information to potential investors and capital market participants, gaining favour with investors and lending institutions (Eulerich & Eulerich, 2020). This facilitates fundraising activities such as initial public offerings (IPOs), debt issuances, or secondary offerings.

5. Impact of Voluntary Auditing on Irish Companies

The decision to adopt voluntary auditing significantly affects Irish companies' internal operations and external environment.

5.1. Internal Impact

Voluntarily adopting internal auditing has positive effects on an organization's internal operations. These effects improve risk management, strengthen internal control systems and processes, and enable more effective decision-making and resource allocation.

1) Improved Risk Identification and Mitigation: One of the significant impacts of voluntarily adopting internal auditing is the enhancement of risk identification and mitigation. Through comprehensive risk assessments and audits, internal auditors can identify potential risks across various dimensions, such as strategic, operational, financial, and compliance (PCAOB, 2022), and formulate effective risk mitigation strategies.

2) Enhanced Internal Control Mechanisms and Systems: When a company voluntarily adopts internal auditing, its internal control systems and procedures are strengthened. Internal auditors identify control weaknesses, gaps, and improvement opportunities through audits (Lin et al., 2011). They collaborate with management and stakeholders to ensure that internal controls align with industry standards and regulatory requirements and operate as expected, enhancing governance and risk management practices.

3) More Effective Decision-Making and Resource Allocation: Voluntarily adopting internal auditing allows organizations to make more informed and effective resource allocation decisions. Internal auditors identify areas where resources are underutilized, redundancies exist, and efficiency is low. They evaluate various initiatives and return on investment schemes, providing valuable insights and analyses that enable management to make decisions aligned with organizational strategic goals based on data (Code of Practice for the Governance of State Bodies, 2016).

5.2. External Impact

The voluntary adoption of internal auditing significantly impacts the external environment of companies in Ireland. These effects include increased transparency and accountability, enhanced reputation and investor confidence, potential reduction in capital costs, and improved regulatory compliance.

1) Increased Transparency and Accountability: Voluntarily adopting internal auditing substantially enhances an organization's business transparency and accountability. Through their impartial and objective assessment activities, internal auditors ensure that the organization's operations and financial reporting are transparent and accurate (Bubilek, 2017). Furthermore, the results and recommendations of internal auditors play a crucial role in promoting internal accountability within the organization (Fonseca et al., 2020). This proactive approach to accountability motivates employees to take responsibility for their actions, helping cultivate a culture of transparency and accountability within the organization.

2) Positive Reputation and Investor Confidence: One of the critical external impacts of voluntarily adopting internal auditing is the development of a positive reputation and increased investor confidence (Ismael & Roberts, 2018). Voluntarily adopting internal auditing signifies the organization's commitment to strong corporate governance, effective risk management practices, and reliable financial reporting. Additionally, by adopting internal auditing voluntarily, the organization demonstrates its dedication to upholding ethical standards, compliance, and the integrity of its operations, sending a strong signal to stakeholders that the organization is committed to enhancing openness, transparency, and accountability, which can positively respond to investor and stakeholder expectations (Plaisance, 2023).

3) Potential Reduction in Capital Costs: Voluntarily adopting internal auditing may reduce organizations' capital costs. By voluntarily implementing internal auditing, organizations can assure lenders and investors of a robust governance and risk management framework, thereby reducing perceived investment risks and lowering borrowing costs. Additionally, organizations with voluntary internal auditing functions are favoured by credit rating agencies, leading to improved credit ratings and subsequently reduced borrowing costs (OCED, 2010).

4) Compliance with Regulations and Avoidance of Penalties: Internal auditors assess the organization's compliance with laws, regulations, and industry standards, identify any non-compliance issues, and recommend corrective measures, contributing to strengthening the organization's regulatory compliance efforts and avoiding penalties (Madenburg, 2023).

6. Conclusion

6.1. Key Conclusion

The voluntary adoption of internal auditing holds significant importance for Irish

companies. By voluntarily adopting internal auditing, companies can strengthen corporate governance, improve risk management practices, enhance operational efficiency, and position themselves to maintain a competitive edge, attract quality investors, and more effectively access capital markets. As investors worldwide increasingly prioritize corporate governance and risk management, more companies globally will embrace voluntary internal auditing. Therefore, whether domestic companies choose to go public or not, actively introducing voluntary internal auditing systems is essential.

6.2. Limitations and Further Research

While there are numerous benefits to voluntarily adopting internal auditing, Irish companies need help implementing and maintaining adequate internal auditing functions. These challenges and further research include resource limitations and cost considerations, more awareness or understanding of its benefits, resistance to change and cultural barriers, and limited availability of expertise and skilled professionals.

1) Resource Limitations and Cost Considerations: Resource limitations and cost considerations pose challenges to voluntarily adopting internal auditing. Establishing and maintaining an internal auditing function requires financial resources for hiring and training personnel, investing in technology and tools, and ensuring adequate infrastructure. Smaller organizations with limited budgets may find it challenging to allocate sufficient resources to internal auditing, which can hinder the adoption of voluntary internal auditing. The Small Firms Association (SFA) in Ireland acknowledges the impact of resource constraints on implementing internal auditing in small and medium-sized enterprises (SMEs) but still considers internal auditing as a worthwhile investment (SFA, 2023).

2) Resistance to Change and Cultural Barriers: Resistance to change and cultural barriers can impede the voluntary adoption of internal auditing. Employees and management may perceive internal auditing as threatening their autonomy or lacking trust in their abilities (Khaw et al., 2023). Overcoming these barriers and resistance to change requires effective communication, stakeholder engagement, leadership support, and a culture of accountability and continuous improvement.

3) Limited Availability of Expertise and Skilled Professionals: Companies need more expertise and skilled professionals in internal auditing (Shaban & Barakat, 2023). Internal auditing requires professionals with a strong understanding of risk management, controls, and financial processes. However, the demand for skilled internal auditors often exceeds the supply, leading to a talent shortage. This means increased competition and costs for recruiting and retaining skilled professionals in internal auditing.

6.3. Recommendations

As the reshaping of the global value chain gains attention from domestic com-

panies, particularly those looking to leverage the benefits of Ireland's tax regime, several recommendations are pertinent for adapting to the Irish business environment:

1) Proactive Audit Awareness Cultivation and Audit Education: Companies can organize workshops, seminars, and webinars targeting board members, key executives, and significant stakeholders. These educational initiatives should focus on cultivating awareness of voluntary internal auditing and strengthening their understanding of the benefits. Participants should also gain comprehensive knowledge of and familiarity with the various guidelines, directives, and recommendations related to corporate governance in Ireland.

2) Strengthen Collaboration with Regulatory Authorities and Professional Associations: Regulatory bodies, industry organizations, and professional associations play a crucial role in promoting the adoption of voluntary internal auditing. Companies can collaborate with these entities to formulate guidelines, best practices, and standards specific to the Irish business environment concerning internal auditing. This collaboration can help ensure alignment with local regulatory requirements and industry norms.

As Irish companies continue to navigate the evolving global landscape, voluntary internal auditing is a valuable tool to enhance governance, mitigate risks, and bolster their competitive position. By proactively embracing and aligning this practice with Ireland's unique business environment, companies can position themselves for sustained success and resilience in an ever-changing global economy.

Founding

This work is supported by the National Social Science Fund of China (No. 20BGL026).

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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