

Breaking the Auditor's Silence: Does CEO Openness Influence the Moral Courage of Internal Auditors? Evidence from Uganda

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ABSTRACT

Purpose: Unethical behaviors such as fraud are continuously hurting organisations. Although internal auditors are expected to report unethical behaviours, such as fraud, when witnessed, some remain silent for fear of retaliation. Drawing on upper-echelon theory, this study examines whether the chief executive officer's (CEO's) openness is associated with internal auditors' moral courage to speak out on ethical concerns.

Design: This explanatory study collected data from 128 internal auditors in formal financial institutions using structured questionnaires and used partial least squares structural equation modeling to test the hypothesis.

Findings: CEOs' openness to internal auditors' recommendations is positively associated with internal auditors' moral courage.

Practical implications: CEOs may appreciate listening to internal auditors as a way of motivating them to speak. Furthermore, boards of governors can encourage CEOs to show openness to internal auditor recommendations.

Originality: This study adds to the scant empirical evidence on the factors that influence internal auditors' moral courage. The empirical findings further confirm that contrary to the idea that internal auditors are independent of CEOs, CEOs influence internal auditors, thereby validating the broader applicability of upper-echelon theory.

ARTICLE INFO

Received: March 14, 2023

Revised: June 25, 2023

Accepted: June 26, 2023

Published: July 3, 2023

Keywords:

CEO Openness

Moral Courage


Internal Audit

Silence

Upper-Echelon Theory



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Introduction

Scholarly interest in ethical behaviours, such as the moral strength to disclose ethical violations, has been increasing because of corporate financial scandals that go unreported due to the fear of retaliation (Khelil, 2023; Khelil, Akrou, Hussainey, & Noubbigh, 2018). Ethics are essential to an organisation's success because

an ethical business environment has been associated with positive outcomes such as quality financial reporting and accountability (Nalukenge, Nkundabanyanga, & Ntayi, 2018) and fraud prevention (Mande, 2020; Krummeck, 2000). Despite the benefits of business ethics, financial scandals have continued to rock organisations, particularly in the context of the global financial sector (Antonacopoulou, Bento, & White, 2019). In Uganda, a developing country, financial institutions have had to close because of financial scandals (Sendyona, 2020). Internal auditors are at the forefront of reporting unethical behaviour among key players in an organisation, thereby promoting an ethical climate (Antonacopoulou *et al.*, 2019; Roussy, 2013). However, some internal auditors often remain silent for fear of retaliation by coworkers and sometimes management (Khelil *et al.*, 2018; Everett & Tremblay, 2014), while others may overcome such fears and disclose unethical behaviours (Khelil, Hussainey, & Noubbigh, 2016; Everett & Tremblay, 2014). Thus, with increasing attention paid to how to strengthen internal auditors to overcome fear and disclose risks, the concept of moral courage is gaining traction among scholars and practitioners (Khelil, 2023; Khelil *et al.*, 2016; Supriyadi, 2020).

Moral courage is defined as a malleable character strength that enables an individual's willingness to resist pressure to act unethically in various situations (Hannah, Avolio, & Walumbwa, 2011). Despite the importance of moral courage, there is still limited empirical research on internal auditors' moral courage (Khelil, 2022). To the best of the researchers' knowledge, this is a novel study examining the role of the chief executive officer (CEO) in influencing the internal auditor's moral courage from a developing country perspective. Although internal auditors are expected to report to the board and CEO (Abbott, Parker, & Peters, 2010), previous studies on moral courage determinants have been skewed towards the board (Khelil *et al.*, 2018) and external auditors (Khelil, 2023), ignoring the role of CEOs' behaviours. However, executive behaviour plays an important role in internal auditing (Lenz & Hahn, 2015).

We fill this knowledge gap by examining the effect of CEOs' openness on internal auditors' moral courage using upper-echelon theory. CEOs' non-receptivity to auditors' ideas has been identified as an executive behaviour that is challenging for internal auditors (Bananuka, Mukyala, & Nalukenge, 2017). This is because an open leader listens to followers, shows interest in their ideas, and endeavours to act on those ideas (Detert & Burris, 2007). Morrison's (2011) voice behaviour theory suggests that a leader's willingness to listen to employees' ideas can make them more likely to speak. When a leader is open, followers think that speaking up will not get them into trouble and that speaking up will not be in vain (Morrison, 2011). Studies of leader openness have mostly focused on corporate leaders and employees. Although internal auditors are also employees, they are expected to report directly to the board and remain independent of top management. However, this unique relationship has not yet been examined. The assumed independence of internal auditors could create the impression of CEOs' inability to influence internal auditors. Drawing from the "upper echelon" theory, which holds that organisational behaviour reflects the ideals of the CEO (Hambrick & Mason, 1984), we argue that CEO openness influences internal auditors' moral courage to speak about ethical issues. We contend that although internal auditors are assumed to be independent of CEOs in theory, in practice, CEOs influence internal auditors.

This study makes an important contribution to the existing literature. First, this study is the first to reveal that a CEO who shows interest in the ideas of internal auditors influences auditors to be more determined to speak out about ethical issues because the chief executive officer's (CEO's) receptiveness to internal auditors' ideas creates the perception that it is safe to speak up. This finding is significant because it shows that open CEOs influence internal auditors' moral courage to speak out, in contrast to the agency theory-based literature, which assumes that internal auditors are independent of top management (Adams, 1994), implying that internal auditors are free from the social pressure of CEOs. Second, the present study supports the upper-echelon theory, which posits that organisational behaviours reflect the values of CEOs (Hambrick & Mason, 1984). Thus, this study shows the wider application of upper echelon theory and partially responds to Liu and Ji's (2022) call for studies that use upper echelon theory to explain accounting-related outcomes. Furthermore, the study partially responds to Lenz and Hahn's (2015) call for studies on the effects of executive behaviour on

internal auditing. Furthermore, this study extends previous studies that examined the role of a master in the form of a board on internal auditors' moral courage by examining the role of another master, the CEO. The findings of this study are important to regulators such as governments (via regulatory bodies such as the Insurance Regulatory Authority (IRA) and central governments), the Institute of Internal Auditors, and boards of directors via audit committees to obligate CEOs to be open to internal auditor recommendations and to recommend openness behaviour in practice guidelines. Second, practitioners such as CEOs may appreciate the importance of being receptive to internal auditors' recommendations as a way of motivating internal auditors to speak out about ethical issues. Boards should encourage CEOs to show interest in internal auditors' recommendations to encourage the auditors to speak.

The Ugandan Context

The formal financial sector in Uganda is a good setting for this study because of corporate scandals in the sector and the need to improve governance, especially internal auditors' ability to speak out about ethical issues. Uganda is a developing country in East Africa with a strong financial sector that accounts for approximately 44.3% of the country's gross domestic product (GDP). This equates to 45.81 trillion dollars, or 44.3% of the country's GDP (László, Andrei, & Imre, 2021). The country's financial industry comprises formal, semiformal, and informal institutions. Banks, microfinance institutions, credit institutions, insurance firms, development banks, pension funds, and capital markets are all formal entities. Village savings and loan societies are informal, whereas SACCOs and other microfinance organisations are semi-formal (Iwumbwe, 2015). The Financial Institutions Act of 2004 regulates formal institutions in Uganda and specifies that internal auditors are part of the controls that should be in place for financial institutions.

Fraud costs insurance companies up to 25% of their annual revenue and banks up to \$10 million annually (Kabuye, Nkundabanyanga, Opiso, & Nakabuye, 2017). Financial scandals continue to threaten formal financial institutions' survival. As a result, several financial institutions have shut down (Sendyona, 2020). Internal auditors are supposed to report significant risks, such as fraud; however, some auditors are unwilling to speak up about risks (Bananuka *et al.*, 2017). Thus, the variables associated with internal auditors' moral will to speak up must be empirically investigated.

After several corporate scandals, regulators in Uganda passed regulations on Financial Institutions (Corporate Governance) in 2005. One of the aims of the regulations was to encourage internal auditors to be independent of top management and speak up about risks. For internal auditors to be independent of the CEO, regulations state that internal auditors must report directly to the board's audit committee and that the board, not the CEO, must hire and evaluate internal auditors. The 2005 Financial Institutions' (Corporate Governance) Regulations also state that top management must protect internal auditors' independence and act quickly and well on internal auditors' suggestions. Although Corporate Governance Regulations (2005) seem to protect internal auditors, empirical evidence from Bananuka *et al.* (2017) shows that internal auditors are still reluctant to speak. This necessitates understanding the executive behaviours that matter for internal auditors' motivation to speak about ethical issues.

The unresponsiveness of CEOs to internal auditors' suggestions has been cited as a challenge to internal auditors (Bananuka *et al.*, 2017); however, whether CEOs' unresponsive behaviour significantly influences internal auditors' moral courage to speak out has yet to be empirically examined.

Finally, Transparency International (2020) revealed that Uganda has a bad corruption rating of 27 on a scale from 0 to 100, where 0 means very corrupt and 100 means not corrupt. To fight corruption, it is important to know how to get internal auditors to speak up about risks such as fraud (Khelil *et al.*, 2018). Thus, a study that explores the effect of CEOs on internal auditors' moral will to speak up significantly adds value.

Literature Review

Theoretical Underpinning

Agency and upper-echelon theories underpin this study. According to agency theory, a firm is a web of contracts between economic resource owners (principals) and managers (agents), who use and control resources. Agents know a lot more than principals, which makes it hard for principals to judge how well agents are doing; this is called an "information asymmetry problem." Selfish agents can increase their use of perquisites at the expense of owners by taking advantage of the "information asymmetry problem." Adverse selection occurs when the principal(s) or owner(s) do not have all the information available at the time a manager makes a decision, making it difficult for the principal(s) to know whether the manager's actions are in the best interests of the principal (Jensen & Meckling, 1976; Adams, 1994). Thus, internal auditors are independent watchdogs hired to protect principals' interests cost-effectively by reporting directly to the board (Adams, 1994). Therefore, agency theory helps explain why boards and owners want internal auditors to act as independent watchdogs. However, if one only examines internal auditors through the lens of agency theory, they can only be viewed as independent monitors. This ignores the likely social influence of powerful organisational actors, such as top executives. Therefore, this study uses upper echelon theory to reinforce agency theory and explain the hypothesised influence of CEOs on internal auditors.

The upper-echelon theory posits that top executives have so much power over the organisations that they lead that organisations' behaviours mirror the biases and attitudes of top executives (Hambrick, 2007; Hambrick & Mason, 1984). CEOs influence their organisations by setting the tone at the top, as indicated by managers' preferences (Bhandari & Golden, 2021). Therefore, it is arguable that when CEOs show interest in the ideas of internal auditors, showing interest becomes a 'tone at the top' because it would suggest that internal auditors' disclosure of ethical breaches is a good thing, thereby creating a perception that it is safe for internal auditors to go ahead and disclose ethical issues without expecting repercussions.

Internal Auditors' Role in Fraud Reporting

The persistence of significant risks, such as fraud, continues to drive scholars and standard setters to identify ways of enhancing internal auditors' moral will to speak up about risks (Khelil *et al.*, 2018). For instance, the Institute of Internal Auditors' (2017) International Professional Practices Framework aims to regulate internal auditors' behaviours by prescribing ideal behavioural norms. Mandatory guidance in the International Professional Practices Framework of the Institute of Internal Auditors (IIA) (2017) requires internal auditors' work to conform to the definition of internal auditing, international standards of auditing, and code of ethics. Internal auditing is defined as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations." "It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (Institute of Internal Auditors (IIA), 2004).

According to this definition, the code of ethics requires internal auditors to act with integrity and make disclosures that are expected by the profession and the law. In line with this, international auditing standard 2060 requires internal auditors to communicate significant risks such as fraud to top management and the board. However, despite the existence of laws and regulations meant to compel internal auditors to speak up, they are sometimes reluctant to speak, often citing potential retaliation by coworkers as a cause of silence (Khelil *et al.*, 2018). Thus, the regulatory framework prescribes the right thing for internal auditors to do but does not show how to enhance internal auditors' moral will to do so. Owing to the inadequacy of the regulatory framework, an understanding of internal auditors' moral courage and moral courage drivers beyond compliance with laws and regulations is warranted.

Internal Auditors' Moral Courage

Moral courage is the resolve to defend or act on one's ethical principles (Khelil *et al.*, 2018). Courageous behaviour is characterised by four keywords: "(a) willful, intentional act; (b) executed after mindful deliberation; (c) involving a substantial risk to the actor; and (d) primarily motivated to bring about a noble good or worthy end" (Rate, Clarke, Lindsay, & Sternberg, 2007, p. 95; Howard, Farr, Grandey, & Gutworth, 2017). Internal auditors' expression of ethical concerns by stating views to supervisors, confronting managers or coworkers for committing ethical breaches, and going against a group's decision when the group violates ethical standards is considered "moral courage behaviour" because internal auditors often face retaliation following the expression of ethical issues (Khelil *et al.*, 2018). There is scant evidence on the determinants of internal auditors' moral courage. Existing research has so far examined the boards' effect on internal auditors' moral courage (Khelil *et al.*, 2018), but research is yet to explore the effect of CEO behaviours on internal auditors' moral courage as far as the present researchers know.

CEO Openness

We deduce the definition of CEO openness from the definition of managerial openness. Managerial openness refers to "subordinates' perception that their boss listens to them, is interested in their ideas, gives fair consideration to ideas presented, and at least sometimes takes action to address the matter raised" (Detert & Burris, 2007). Therefore, in this study, CEO openness to internal auditors' ideas is the perception of internal auditors that the CEO listens to the auditors, is interested in the internal auditors' views, gives internal auditors' ideas fair consideration, and occasionally takes action to address the issues raised. Some CEOs' lack of openness to internal auditors' ideas is a challenge to internal auditing (Bananuka *et al.*, 2017). Studies recommend research on the effects of executive behaviours on internal auditing outcomes (Lenz & Hahn, 2015), but the effect of CEO openness on internal auditing is yet to be explored, as far as the researchers know. Therefore, this study explores the effect of CEO openness on internal auditors' moral courage.

CEO Openness and Internal Auditors' Moral Courage

The relationship between CEO openness and internal auditors' moral courage to express ethical concerns can be explained by Morrison's (2011) voice behaviour theoretical model and upper-echelon theory. Morrison's (2011) theoretical framework for voice behaviour posits that leaders who demonstrate openness to employees' ideas by listening, showing interest in the ideas, giving fair consideration to the ideas, and sometimes acting on the ideas are more likely to motivate employees to make constructive suggestions because the openness of a leader signals to employees who speak up that it is good and not punishable.

An empirical study by Van De and Van Der (2003), who used data from different work units of a multinational company, supports Morrison's theory that leaders who are open to employees' ideas are more likely to encourage employees to speak up. However, Van de and Van der (2003) further revealed that the relationship between leader openness and employees' speaking-up behaviour may not be the same in all contexts. Whether the relationship between CEO openness and internal auditors' moral courage to speak out about ethical issues can be inferred from Morrison's (2011) voice behaviour model is not known because there are debates on whether internal auditors are independent of top executives.

As a way of safeguarding internal auditors from the top management's social pressures that threaten the internal auditors' courage to report ethical issues, internal auditors are required to report directly to the board or the board's audit committee, which is higher than the top management (Khelil *et al.*, 2018). Therefore, it might seem that CEOs do not have a significant effect on internal auditors because they are thought to be separate from top executives. By contrast, empirical evidence suggests that, in practice, CEOs influence internal auditors. For instance, a study by Roussy (2013) in Quebec revealed that internal auditors prioritise the interests

of the chief executive officer, such as keeping the secrets of the top manager, at the expense of the board's audit committee. Roussy (2013) concluded that internal auditors' independence from top management in practice is "grey independence," implying that CEOs are capable of influencing internal auditors. Roussy's (2013) empirical findings agree with Bananuka *et al.*'s (2017) empirical findings, which show that internal auditors in Ugandan-listed institutions do not feel independent from CEOs because CEOs influence internal auditors' rewards by influencing decisions, such as internal auditors' tenure. Therefore, it is arguable that CEOs influence internal auditors in practice.

We draw on the upper echelon theory, which posits that behaviours in organisations reflect the preferences of the CEO (Hambrick, 2007; Hambrick & Mason, 1984), to propose that CEO openness is positively associated with internal auditors' moral courage to speak about ethical issues. We argue that CEOs' demonstration of appreciation for internal auditors' ideas sets the tone that internal auditors' speaking up is preferred by the CEO and is not punishable. Consequently, internal auditors are likely to be motivated to express ethical concerns, knowing that they are unlikely to be punished by CEOs when they report ethical issues. Therefore, the following hypothesis was derived:

Hypothesis: The openness of the CEO to the recommendations of internal auditors is positively and significantly associated with internal auditors' moral courage to speak about ethical issues.

Methodology

Research Design

This study is Quantitative and explanatory. Internal auditors provided primary data using a 5-point Likert scale self-administered structured questionnaire. The questionnaire measurement items were adapted from previous research (Khelil *et al.*, 2018; Ashford, Rothbard, Piderit, & Dutton, 1998; Detert & Burris, 2007; Grant, Gino, & Hofmann, 2011) because of their high loadings. Partial least squares structural equation modelling (PLS-SEM) using the SMARTPLS4 software was performed to evaluate the measurement and structural models and test hypotheses. PLS-SEM was chosen because it can create robust models even with sample sizes lower than 250 respondents (Hair, Hollingsworth, Randolph, & Chong, 2017).

Internal auditors' moral courage was measured using four items adapted from Khelil *et al.* (2018). The measurement items included statements such as, "I will confront my peers if they do something unethical." "I will confront my manager if he or she does something unethical," "I will always tell my supervisors what I think about ethical issues," and "I will go against the group's decision if it goes against my ethical standards."

CEO openness was measured using five items that were adapted from previous studies (Ashford *et al.*, 1998; Detert & Burris, 2007; Grant *et al.*, 2011), and the items include statements like "Our CEO is open to new ideas." "Our CEO is receptive to suggestions," "Our CEO has often rejected our ideas (reverse coded)," "Our CEO is open to our ideas," and "Our CEO has often dismissed suggestions (reverse coded).

Population and Sample Size

This study targeted a population of 203 internal auditors from formal financial institutions in Uganda. Formal financial institutions include insurance companies, commercial banks, microfinance deposit-taking institutions, development banks, capital market advisors, brokerage firms, credit institutions, and pension funds (Iwumbwe, 2015). The sample size was 135 internal auditors, computed using Yamane's (1973) sample size calculation formula, $n = N / (1 + Ne^2)$ where n represents the sample size, N is the population size, and e is the type 1 error, which is 0.05 in this study. Internal auditors were randomly selected. Only 128 of the selected internal auditors responded, and the response rate was 94%. Using the SMART PLS 4 data analysis software, a

post hoc analysis of the minimum sample size that is required to attain a statistical power of at least 80% at an alpha value of 0.05 was done, and the results revealed that a minimum sample size of 19 internal auditors was required for a statistical power of 80% and 26 internal auditors for a statistical power of 90%. Therefore, the sample size of 128 internal auditors used in this study was adequate to achieve a statistical power of 90%.

Results and Discussion

Descriptive Results

The mean values for CEO openness and internal auditors' moral courage were 3.7492 and 4.2778, respectively. On a 5-point Likert scale, the means are greater than the midpoint of 3, indicating favourable internal auditors' evaluations of the latent constructs of CEO openness and internal auditors' moral courage constructs. The standard deviations for CEO openness and internal auditors' moral courage were 0.85002 and 0.55013, respectively. A standard deviation smaller than the mean indicates that the mean adequately represents the data (Field, 2018). Thus, the means were a good representation of the study data.

Common Method Bias Assessment

Common method bias is the systematic inflation or deflation of relationships between constructs because of how the variables are measured, such as by collecting data on all variables from the same respondent or using the same instrument to collect data on all study variables (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). This study assessed the possibility of common method bias using Harman's single-factor test, which Fuller, Simmering, Atinc, Atinc, and Babin (2016) recommend. Using Harman's single-factor test, this study performed a factor analysis utilising all the study variables to ascertain if the variance explained by a single factor was less than 50% and conclude that no single factor emerged, implying that there is no common method bias. Our results suggest that the variance explained by a single factor was 48.251%, which was less than 50%, implying that this study was not affected by common method bias.

Reliability and Validity of the Measurement Model

Cronbach's alpha construct reliability values for CEO openness and internal auditors' moral courage were 0.906 and 0.778, respectively, while composite reliability (rho c) values for CEO openness and internal auditors' moral courage were 0.93 and 0.857, respectively (Table I). The ideal reliability value is at least 0.7 but less than 0.95. (Hair, Risher, Sarstedt, & Ringle, 2019). Thus, the constructs of this study were reliably measured.

Table 1: Construct Reliability and Convergent Validity

	Cronbach's alpha	Composite reliability (rho_c)	Average variance extracted (AVE)
CEO openness	0.906	0.93	0.727
Moral courage	0.778	0.857	0.6

Source: Primary data

All item loadings on latent constructs are at least 0.7 (Table 2), and average variances extracted (AVE) are 0.727 for CEO openness and 0.6 for internal auditors' moral courage. The average variance extracted for each construct must be at least 0.5, together with item loadings of at least 0.4, for acceptable convergent validity (Hair *et al.*, 2019). Hence, the average variances extracted and item loadings in this study indicated acceptable convergent validity.

Table 2: Outer Loadings

Measurement item	Statement	Outer loading
COPEN1 <- CEO openness	“Our CEO is open to new ideas”	0.933
COPEN2 <- CEO openness	“Our CEO is receptive to suggestions”	0.864
COPEN3 <- CEO openness	“Our CEO is interested in our ideas”	0.917
COPEN4 <- CEO openness	“Our CEO has often rejected our ideas”	0.758
COPEN5 <- CEO openness	“Our CEO has often dismissed our suggestions”	0.777
MC1 <- Moral courage	“I will confront my peers if they commit an unethical act”	0.756
MC2 <- Moral courage	“I will confront my manager if he/she commits an unethical act”.	0.833
MC3 <- Moral courage	“I will always state my views about ethical issues to my supervisors”.	0.78
MC4 <- Moral courage	“I will go against the group's decision whenever it violates my ethical standards”	0.726

Source: Primary data

Discriminant Validity

Discriminant validity was evaluated using both the heterotrait-to-monotrait correlation ratio (HTMT) and the Fornell-Larcker criteria. An HTMT ratio of less than 0.90 indicates the existence of acceptable discriminant validity (Hair et al., 2019). In the present study, the HTMT ratio was 0.659. The Fornell-Larcker criterion indicates that the square roots of the average variances extracted are 0.853 and 0.775 for CEO openness and internal auditors' moral courage, respectively, which are less than the correlation between CEO openness and internal auditors' moral courage of 0.576 (Table 3). The results of both the HTMT and the Fornell-Larcker criteria indicate that the discriminant validity of this study's measurement model is satisfactory, suggesting that CEO openness and internal auditors' moral courage constructs are distinct.

Table 3: Discriminant Validity Based on the Fornell-Larcker Test

	CEO openness	Moral courage
CEO openness	0.853	
Moral courage	0.576	0.775

Source: Primary data

Model Robustness Assessment

The study tested for the absence of endogeneity bias in line with the guidance on assessing model robustness by employing Gaussian copulas (GC) by Hult, Hair, Proksch, Sarstedt, Pinkwart, and Ringle (2018). Table 4 shows that the Gaussian copula coefficient in this study is insignificant (GC: Beta = -0.398; P-value > 0.05), suggesting that there is no endogeneity bias. Because there is no endogeneity bias, there is no omitted variable bias; therefore, control variables are not required in this study.

Table 4: Endogeneity Test Results using the Gaussian Copula Coefficient

	Beta	T-value	P-value
GC (CEO openness) -> Moral courage	-0.398	1.374	0.17

Source: Primary data

Main-Hypothesis Result: CEO Openness and Internal Auditors' Moral Courage

The results suggest that the relationship between CEO openness and internal auditors' moral courage is positive and significant ($\beta=0.576$; $t > 1.96$; $P < 0.00$). This means that internal auditors' moral courage to speak about ethical issues is likely to increase with CEOs who are more open to internal auditors' ideas. The results are presented in a path diagram (Figure 1).

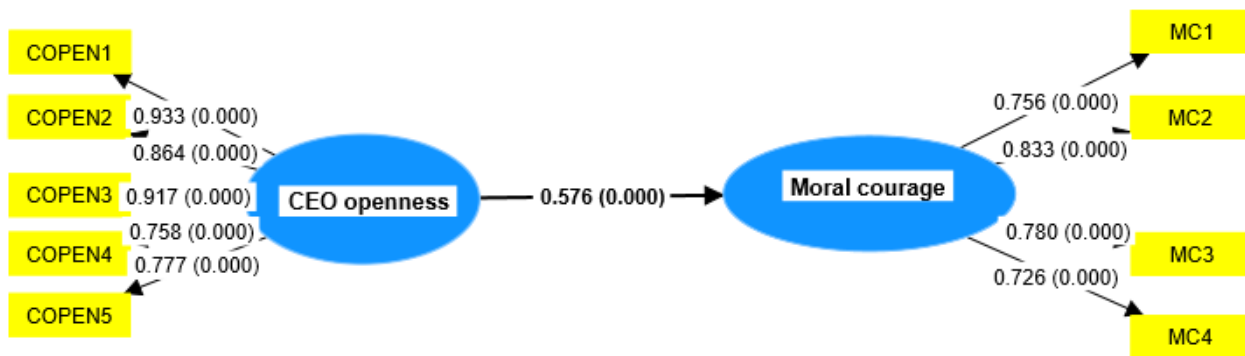


Figure 1: Path Diagram for the Relationship between CEO Openness and Internal Auditors' Moral Courage

Discussion

This study hypothesised that CEO openness and internal auditors' moral courage to speak about ethical issues are significantly related. The results support our research hypothesis, revealing that CEO openness and internal auditors' moral courage to speak about ethical issues are positively and significantly related. This means that internal auditors' moral courage to express ethical issues is likely to increase in the presence of open CEOs.

Our findings align with Morrison's (2011) voice behaviour model, which suggests that leaders who are open to employee ideas create an environment in which speaking up is encouraged and not punished. By demonstrating openness to internal auditors' ideas, CEOs set a tone that encourages internal auditors to express ethical concerns without fear of reprisal. This finding underscores the significance of CEOs' role in promoting an environment in which internal auditors feel secure reporting ethical breaches. However, Van de and Van der (2003) revealed that the relationship between leader openness and employees' speaking-up behaviour may not always be the same in all contexts. Therefore, this study examined the unique context of internal auditors, who are assumed to be independent of top executives when viewed through the agency theory lens (Adams, 1994).

This study bridges the gap between agency theory and upper-echelon theory in understanding the determinants of internal auditors' moral courage to speak about ethical issues. From the agency theory perspective, internal auditors are independent monitors that safeguard the interests of the board's audit committee and owners (Adams, 1994). The assumption of internal auditors' independence suggests that they are free from the CEO's social pressure when choosing to speak about ethical issues. However, our findings suggest that CEOs, as powerful organisational actors, play a crucial role in shaping internal auditors' moral courage, consistent with upper-echelon theory. Upper echelon theory posits that the behaviours and attitudes of top executives influence organisational behaviour (Hambrick & Mason, 1984). This study demonstrates that CEO openness is positively related to internal auditors' moral courage to speak about ethical issues, highlighting the importance of CEOs promoting an ethical environment in which internal auditors are free to speak without fear. Moreover, CEOs in Uganda influence internal auditors' rewards, such as lengthy tenure (Bananuka *et al.*, 2017), thereby increasing their ability to influence internal auditors.

Thus, this study adds novel insights by revealing that, in practice, CEO openness influences internal auditors' moral courage to speak out, in contrast to the agency theory-based governance paradigm, which assumes that internal auditors are independent of the CEO (Adams, 1994), suggesting that internal auditors are free from CEOs' social pressure. The present study's findings support the argument that internal auditors' independence is "grey" (Roussy, 2013), following a study in Quebec that revealed that internal auditors are keepers of CEOs' secrets instead of the board, implying that in practice, CEOs influence internal auditing. This result partly responds to calls for studies on executive behaviours that matter for internal auditing (Lenz & Hahn, 2015). Research has revealed that a supportive board matters for internal auditors' moral courage (Khelil *et al.* 2018). Thus, this study makes an incremental contribution by revealing that the openness of the second

"master," the CEO, also matters for internal auditors' moral courage to discuss ethical issues. Therefore, CEOs should demonstrate openness to internal auditors' ideas to motivate internal auditors' moral courage to speak about ethical issues and improve corporate governance.

Conclusion

Utilising the perceptions of 128 internal auditors in Uganda's formal financial sector, collected using a self-administered questionnaire, followed by hypothesis testing using partial least squares structural equation modelling, this study tested the hypothesis that CEO openness and internal auditors' moral courage to express ethical concerns are significantly associated. The study results reveal that CEO openness to internal auditors' ideas and internal auditors' moral courage to speak out about ethical issues are positively related because CEO openness creates a feeling of psychological safety to speak out about ethical issues. This study contributes strongly to the existing body of knowledge and practice. First, contrary to the assumption that internal auditors are independent of CEOs and, thus, free from social pressures, this study reveals that CEO openness is positively associated with internal auditors' moral courage to speak about ethical issues. This study partly responds to requests for research on the effects of executive behaviours on internal audits. Second, the study is consistent with the upper-echelon theory, which posits that organisational behaviours reflect the values of CEOs (Hambrick & Mason, 1984). As such, the present study shows the wider application of the upper-echelon theory and partly responds to Liu and Ji's (2022) call for empirical research that uses the upper-echelon theory to explain accounting-related behaviours. Moreover, this study shows how to encourage internal auditors to speak in a developing country with an adverse corruption rating and in need of developing corporate governance, which is a noteworthy contribution.

Therefore, CEOs should endeavor to show receptiveness to internal auditors' ideas to create a feeling of psychological safety among internal auditors to speak about ethical issues, which could motivate internal auditors' moral courage. Boards should recruit CEOs who show open-mindedness about internal auditors' recommendations and continuously encourage CEOs to show interest in internal auditors' ideas.

Limitation and Future Direction

Despite its significant contributions to the existing body of knowledge and practice, this study, like any other study, has some limitations. First, only one country served as a testing ground. However, differences in national laws and cultures may limit the applicability of the findings of this study to other countries. Second, this study investigates the effect of a single CEO's behaviour. Other CEO behaviours and attributes associated with the moral courage of internal auditors are yet to be explored. This study recommends areas for future research. First, cross-country studies that examine the effects of national culture on the CEO openness-internal auditor's moral courage relationship should be conducted. For example, studies can explore the effects of country-level power distance on the relationship between CEO openness and auditor moral courage. Second, future studies can examine the effects of other CEO characteristics such as CEO emotions, CEO narcissism, CEO power, and CEO leadership style on internal auditors' moral courage.

Funding: This research received no external funding.

Acknowledgments: We acknowledge there was no external funding support; all authors contributed accordingly in every part of the paper.

Conflicts of Interest: The authors declare no conflict of interest.

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